

## COLLECTED POEMS

I told him that I did begin to see;  
And I was nearer than I should have been  
To laughing at his malign inclusiveness,  
When I considered that, with all our speed,  
We are not laughing yet at funerals.  
I see him now as I could see him then,  
And I see now that it was good for me,  
As it was good for him, that I was quiet;  
For Time's eye was on Ferguson, and the shaft  
Of its inquiring hesitancy had touched him,  
Or so I chose to fancy more than once  
Before he told of Norcross. When the word  
Of his release (he would have called it so)  
Made half an inch of news, there were no tears  
That are recorded. Women there may have been  
To wish him back, though I should say, not knowing,  
The few there were to mourn were not for love,  
And were not lovely. Nothing of them, at least,  
Was in the meagre legend that I gathered  
Years after, when a chance of travel took me  
So near the region of his nativity  
That a few miles of leisure brought me there;  
For there I found a friendly citizen  
Who led me to his house among the trees  
That were above a railroad and a river.  
Square as a box and chillier than a tomb  
It was indeed, to look at or to live in—  
All which had I been told. "Ferguson died,"  
The stranger said, "and then there was an auction.  
I live here, but I've never yet been warm.  
Remember him? Yes, I remember him.  
I knew him—as a man may know a tree—  
For twenty years. He may have held himself  
A little high when he was here, but now . . .  
Yes, I remember Ferguson. Oh, yes."

# THE PRODUCTION CRISIS

PRAKASH N. AGARWALA

B. A. (Hons.), M.B.A. (Harvard)

Industrial Management and Business Consultant

Member, *Bengal Chamber of Commerce.*

WITH A FOREWORD BY

C. N. KIL

Director, School of Economics & Sociology  
University of Bombay.

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DEDICATED TO MY  
FATHER  
WHO CONTINUALLY INSPIRED ME  
IN MY ENDEAVOURS AND TO  
WHOM I OWE SO MUCH.



## FOREWORD

It is commonly acknowledged that capitalism in our country is on the defensive, but that capitalists as a class have not been able to convince the community at large of the socially useful role that they can continue to play. The increasing impatience of the intelligent public towards the known evils of the capitalist structure is bound to develop, unless an effort is made to present in a clear manner the point of view of the businessman on the various economic problems now before the country. I would like to congratulate Mr. P. N. Agarwala on having attempted this difficult task successfully. Mr. Agarwala belongs to a well-known business house in Calcutta and unlike most businessmen in India, he has had the benefit of higher education in Economics and Business Administration at Harvard. Mr. Agarwala has shown an unusual capacity for self-criticism and this is a welcome sign which businessmen in general will do well to imitate.

In this book, Mr. Agarwala has analysed in detail the manifold aspects of our present "Production Crisis" and has offered, on the strength of his diagnosis, some constructive suggestions to lift the economy from the present *malaise* and to put it on the long term path of orderly development. He has been fearless in pointing out the extent of damage done to our economy by the inconsistencies and mistakes in Government's economic policy. He calls for a bold, unified policy on the part of the Government pinned to the hard present day economic realities rather than to the pursuit of impracticable ideals.

Mr. Agarwala has done a service to businessmen in pointing out that their fears of prospective Japanese competition are baseless because of the changed conditions in

Japanese economy. Incidentally he has provided an interesting explanation of pre-war under-selling practices of the Japanese. He has pointed out that it was not so much due to cheapness of labour as to the unified control over the entire range of industry, trade and transport that a few business families exercised. This illustrates an important economic fact viz. that horizontal and vertical integration results in substantial economies of production, a lesson that our planners will do well to learn.

Mr. Agarwala's suggestions regarding planning our foreign trade deserve very careful consideration. His approach to the problem of agrarian reform is progressive, particularly so in the light of the cautiousness he displays in encouraging governmental intervention in the sectors of industrial production and transport. One cannot help noticing that Mr. Agarwala is pleading for maximum freedom in business and industry in general and for governmental intervention only with a view to assist private *entrepreneurs*. This is perfectly understandable in the light of his capitalist bias; but this bias leads him to take up a highly controversial stand regarding certain aspects of Government's economic policy. For instance, he argues for minimising direct taxation of incomes and for increasing the avenues of indirect taxation. He pleads for a firm attitude on the part of Government to stop further "appeasement of labour" and he is opposed to schemes like profit-sharing. He further calls for raising additional tariff walls to encourage our industries. In these and similar other issues Mr. Agarwala has presented an able defence of the capitalist position. And this will at least help the public in understanding more clearly the capitalistic side of the controversy.

Businessmen as well as others interested in the subject will find this book particularly thought-provoking, because of Mr. Agarwala's fearless exposure of the outmoded and unhelpful practices now prevalent in our business life and

especially his approach of humanising business relationships. His illustrations from the American business world are highly stimulating and have great educative value to our businessmen particularly for efficient business management.

Mr. Agarwala's work is an evidence of the increasing interest enlightened businessmen are taking in our national activity. Whether one agrees with him or not, I hope that his ideas will conduce to better understanding of the problem.

C. N. VAKIL.

*School of Economics & Sociology,  
University of Bombay,  
21st February, 1949.*



## INTRODUCTION

IN the last two years there has been a steady decline in our economy and business life. Some temporary maladjustments were inevitable in the wake of the Partition, but the crisis has shown no sign of abating. On the other hand it is deepening every day. It was this progressive deterioration which led me to closely analyse some of the factors that have aggravated the crisis.

In spite of the Government's anti-inflationary measures, the country is still suffering from an unprecedented degree of inflation. This is primarily due to the lack of production in the agricultural as well as the industrial spheres. Everyone seems to urge the need for greater production, but there has hardly been any serious attempt to remove the bottlenecks in the way of maximum production. Until and unless the air is cleared of the various misgivings current in regard to matters of grave economic import it will be very difficult to create the necessary psychological ground for fighting the production battle.

The first pre-requisite is consciousness among all sections of the people of the gravity of the situation and a shedding of the belief that in due time things will correct themselves. It is heartening to see that the economic issues are today receiving more attention in the Press than hitherto but the dangers that lie ahead seem not to have been fully appreciated yet.

Unfortunately, the predominance of the speculative mentality in our business and commercial life is also making the situation rather explosive. The writer feels that the Partition has radically changed the basis of our economy, and henceforth, our business leaders will have to organise "our industries" more on a processing basis. That is to say, the units must develop efficiency if they are to survive in the difficult years ahead. They will also have to develop modern methods of research, and humanise business relation-

ships. Before the advancing tide of communism engulfs them, our businessmen must give a new lead—which is called for as much by the exigencies of the situation as by their own enlightened self-interest.

Again, in the absence of economic well-being among the masses, our aspirations of Asian leadership and the struggle and suffering of our freedom fighters will have been in vain.

In the following pages I have stated the Crisis and made an attempt to analyse the various factors responsible for the situation. The latter part of this book is devoted to the solution aspect—remedial measures in the various spheres designed to restore economic equilibrium. The writer does not claim any finality in putting forth these suggestions. They are designed more to provoke thinking over these matters. If the present work succeeds in focussing attention on these vital issues the writer will consider his labours repaid.

I must thank Prof. C. N. Vakil for the interest he has taken in this work, his very helpful discussions on most of the topics it deals with and his consent to write a Foreword. I would also like to thank Drs. Gyan Chand, V. K. R. V. Rao and B. N. Ganguli for permitting an exchange of views and offering helpful suggestions. I wish to thank my industrialist friends for their frank views on various subjects and I cannot close this note without thanking Messrs. Murthy & Tyson, Editors of *Commerce* and *Capital* for their suggestions. I wish to thank Mr. Hiralal for expediting the publication and Mr. U. R. Rao for the interest he has taken in going through the proofs of the book and making necessary corrections. A *Post-script* has been added at the end of the book to bring it up-to-date as it has not been possible to bring out this publication before the Budget.

PRAKASH N. AGARWALA

11, PALM AVENUE,  
BALLYGUNGE,  
POST BOX No. 2220,  
CALCUTTA.

*Dated 15th January, 1949.*

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## CHAPTER I

### *THE CURRENT CRISIS*

BUSINESSMEN and industrialists had set out on big projects for the industrialisation of India during the war. They eagerly anticipated that the post-war period would witness rapid strides in India's industrial economy. Prior to war, the opportunities that were afforded for the development of National Industries were extremely meagre. The key export industries, viz. jute and tea and even shellac, and manganese which have been traditionally principal foreign exchange earners and in the field of foreign trade, reinsurance and exchange banking there has been predominance of European houses. An alien administration was none too anxious to develop our basic industries like Power and Big Steel, automobiles, aviation, shipbuilding capital goods and machinery. The hard struggle of Indian Iron and Steel Industry, our Cotton textile and Cement Industries is too well-known and it was only after surmounting disastrous competition from Japan, Manchester and Lancashire that our textile industry was able to weather the storm. The years 1943-46 witnessed the biggest boom in the capital and stock markets of India.

The end of the war and the consequent financial paralysis that brought the liquidation of the British Empire in sight had raised great hopes among the business community. The advent of Freedom was expected to usher an era of tremendous economic development and industrialisation. The war had given a chance for some of the nascent industries of India to stand on their feet, and it was only logical for people to assume that India would give the lead to the Asian continent in the economic and industrial field. China had been crippled by the long years of internecine war and Japanese occupation and it was ardently hoped

that the vacuum created by the defeat of Japan would be filled in by India. Her strategic geographical position, the immensity of her rich natural resources and the culture of her age—long civilisation gave her a vantage point. What is the picture today? The British are gone; the Princes are yielding. The British had cleverly left the problem of States unsolved during their withdrawal. Credit for the great political consolidation must go to Sardar Patel. The back of the communalist seems to have been broken in the last one year; yet we are *still* in the woods so far as our economy is concerned.

Positive proof of the existence of an economic crisis can be had by examining the index of Industrial production in the last 2 years. The steel production index which stood at 157.3 in 1941-42 and 170 in April 1946 has fallen down to 138.4.<sup>1</sup> The pig iron production which stood at 141.6 in 1941-42 has fallen to the low of 94.2.<sup>2</sup> The production of coal which is so essential for the healthy maintenance of even the barest industrialised economy, fell from 140.2 in January 1945 to 114.9 in November 1947. Similarly, a sharp decline was experienced in the production of cement, from a high of 133.3 in the world recession year 1937-38 to 103.9 in April 1948.<sup>3</sup> The production of paper, the index of which stood at 193.2 in 1941-42 fell down to 63.5 in April 1947.<sup>4</sup> The production of cotton textiles—India's largest national industry fell down from 4,800 million yards in 1944 to 3,750 million yards in 1947. The *Capital* index of Indian Industrial activity shows that Indian business activity declined by 7.2 points during April 1948 alone. The *Capital* index of Indian Industrial activity with 1935 as its base year, stood at a figure of 133 in 1945-46 and it now stands at 105. This production crisis is not confined to the industrial and mineral fields, for looking even at agriculture,

<sup>1</sup> Quoted from *Capital*, dated 30th September, 1948.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

we find that the total foodgrain production is expected to be in the neighbourhood of 40 million tons only. Our food deficit which was estimated at a million tons during the Bengal Famine by the Foodgrains Policy Committee is now estimated at around 4 million tons and this continues to increase every year. Next year we will require 5 million tons and if our population increase continues and our agricultural production remains at the present low level the deficit factor will become a permanent feature of our economy. In the last 10 years our agricultural production has actually declined.

We normally produced  $9\frac{1}{2}$  million bales of raw jute<sup>1</sup> and 5 million bales of raw cotton annually in the pre-war years. The raw jute crop in 1946-47 was very small, being estimated around 6 million bales and even in 1947-48 the crop did not yield more than  $7\frac{1}{2}$  million bales taking into account production both in India and Pakistan against an earlier expectation of  $8\frac{1}{2}$  million bales. Even in the case of raw cotton we find that the total yield has shown a steadily diminishing curve and the present crop estimates show that production in both India and Pakistan is not likely to exceed  $3\frac{1}{2}$  to  $3\frac{3}{4}$  million bales against a pre-war figure of 5 million. This decrease in the money crops which have for so long played a big part in our rural economy shows the shifting emphasis on food crops but we have already seen that the foodgrains production has actually declined rather than increased. Thus we have witnessed declines both in the sphere of foodgrains production as well as in the sphere of cash crops. This clearly reflects that our agricultural productivity has been showing signs of further decline and exhaustion and the real agricultural crisis lies in the extremely small and uneconomic *per capita* production when we consider the colossal waste of material and human resources. True, the high prices of agricultural commodities is creating an illusion of prosperity, but basically the economy is as

<sup>1</sup> *Hindustan Standard*, dated 2nd March, 1945.

backward as ever. It need be hardly said that our agriculture is very backward from the technological standpoint. Our crop yields compare very unfavourably even in relation to the other countries of the East. Only 23 per cent. of the area under tillage is irrigated and for the balance we have still to depend upon the gamble in monsoon even in the middle of this century when science and mechanisation seem to have reached the zenith. Most of our cowdung is burnt away and very little use of Ammonium Sulphate is made. The extremely small and fragmented land holdings have left our peasantry in the state of an undernourished and impoverished population.

The stock market with all its imperfections, has always remained in every principal country of the world as a barometer which reflects the amount of business confidence that the mercantile community in general feels at the moment. A study of the recent movements of the stock markets of Bombay and Calcutta shows that the market has shown no signs of a real recovery from the stagnation which has been its characteristic feature now for well over two years. In fact, only a few weeks ago the markets were in such doldrums that it was hardly worth mentioning as a real market. The floors in the Calcutta Stock Exchange had rendered trading virtually impossible and Calcutta merchants were rushing stop-loss orders to unload their holdings nervously in the free market of Bombay. Even in Bombay the activity has been at a very low ebb and considering the volume and size of trading it is still quite negligible. It is true that in the last few months there has been some professional support which has tended to push up the prices of Tata Deferred, Indian Iron, Bengal Steel yet there is no sign that there has been any return of confidence and the investors are still far away from the scene of operations. The Finance Member, Hon. Dr. John Matthai, recently admitted this fact while addressing the Associated Chambers meeting. Since the middle of 1947, the Stock Exchange

index has fallen from 475 to a low of 215<sup>1</sup> which clearly illustrates the situation.

It has been an accepted canon that the retail trade is also a very good index of a nation's economic activity as it reflects the consumer psychology and the general buying power of the community. A sample survey of retail trade conducted by experienced and seasoned representatives of such important papers as the *Commerce* of Bombay, shows that in the busiest localities of retail trade the turnover is very much lower than in July/August when the clouds and scare of the Hyderabad tangle still hung over us in the balance. The amount of *moorat* trading at the time of *Divali* and the New Year, is also a very good indicator of the way business runs at present and its very low volume compared even to the pre-war normal trading years shows the utter disgust and disappointment of the business community. The Christmas shopping which usually attracts a large volume of customers and brisk trade was also very poor this year judging from the reports of the retail and department stores in Calcutta and Bombay. The New Market which is Calcutta's nerve-centre of shopping and the Connaught Circus and Chandni Chowk Stores of New and Old Delhi have had a similar experience. The decline in sales volume is estimated somewhere around 50 per cent. even according to reports collected by the *Statesman* and *The Times of India*. A study of the recent price movements of the various commodities clearly reflects the declining trend and the extent to which consumer resistance has developed. The fact is that today the holders of goods and commodities are finding it difficult to find a buyer for their goods at prices less than their cost. The existence of this phenomena is not confined to any one single commodity, but is widespread in business and industry in general.

Normally the period from September right till April, is a period of greater activity in the business field for it is at

<sup>1</sup> Quoted from *Capital*, dated 30th September, 1948.

this time that the crops of cotton and jute, tea and seeds, etc. are moved from the producing areas to the processing and consuming centres and the ports. There always remains a very brisk demand for short-term funds with the commercial banks. From what one can study, there is at present, no lendable surplus so to speak, with the banks. The stringency of money conditions is too apparent to need comment. The most reassuring proof of this condition can be had by gauging the amount of money and capital that is lying locked up, both of individuals and of banks. The locking of capital is presently of a very high magnitude judged by any standards. It clearly shows that there is no abundance of cheap money and people who had borrowed earlier are not finding it very easy to repay. There is a marked desire for liquidity preference, i.e. people desiring to get rid of their stocks and to convert their holdings either to the form of cash or bullion. There is no desire today to hoard goods in expectation of rising prices or larger gains in the future. In a sense there is a flight to money rather than *from* it.

Looking at our foreign trade we find that consumer resistance is building itself quite strongly when it comes to our chief export commodities—jute goods, tea, shellac, mica, oilseeds, etc. The United States which has been traditionally India's principal buyer of hessian cloth has been turning increasingly to the use of substitutes such as paper and cotton bags. From what one can see from a study of our Daily Export List the foreign consumers especially the Americans have been buying very scantily and on a "hand to mouth" basis. Even in the case of shellac the competition from substitutes is increasing and the same is true in case of mica and manganese. Ceylonese tea and the East African tea are making the future of our tea industry, which incidentally is our second largest export industry—extremely precarious. Countries like United States and Canada have been buying their tea requirements from sources other than India in an increasing measure.

Reports arriving from United Kingdom—our largest tea consumer—are also quite disturbing and make the future of our export outlets highly uncertain. In the case of oilseeds which formed for a long time a very important item of export from Bombay, the position is that foreign countries are just disgusted and cannot pay the fantastic prices that are being asked for in the local export centres. The competition from South American countries like Argentine, Brazil has practically ousted Indian oilseeds from the world competitive markets. The export bills in the last 6 months are few and far between from the reports of exchange bankers and shippers.

In the import field, thanks to the Open General License every Tom, Dick and Harry has entered the field and flooded the country with goods and commodities which are not very easy to unload and yet we continue to suffer from shortages of essential capital goods and machinery to replace our old and worn-out plants and to start new industries. The demand for remittance abroad is also currently at a low ebb.

There are increasing signs of middle class unemployment and to quote from a recent news item of the *Statesman* there were 67 applicants for the job of a clerk of Rs. 45 per mensem and the applicants included graduates and post-graduates. A number of business houses are said to be contemplating retrenchment and some have already started on the road to do so. Mills are finding it extremely difficult to absorb additional wage increases in the absence of any increase in the *per capita* production and absence of discipline. The future existence of some of our industrial units is becoming more and more precarious as labour costs seem to outstrip the prices domestic and foreign consumers can pay or are willing to do so. Mills have had to close down in Nagpur, Cawnpore, Ahmedabad, Bombay, Sholapur owing to labour troubles in the face of shortages and in the context of today's capital market it has become virtually impossible for any house no matter how old and long established to venture

forth and start new enterprises. It is a very interesting commentary on the state of things as they stand presently.

One might argue that these are the signs of a post-war slump or depression which was already overdue and the present crisis is merely a normal economic reaction to the artificially boosted economy that was characteristic of the war. The fact is that in the face of all these landslides we are still in the midst of a very serious inflation. According to the *Eastern Economist* and the *Economic Adviser* the index of the working class cost of living today stands at 380. These index prices take into account only the controlled prices of foodgrains, housing and other essential needs. It need hardly be added that the blackmarket or shall we say the free market prices of these items are much higher and the index figure will be inflated much more if the computation was to take into account these adjustments. Labour feels that the wage increases do not fully reflect the increased cost of living and they feel that in terms of real wages they have been actual sufferers rather than gainers as some people might have thought. There is, therefore, a feeling of utter disgust and disillusionment in the ranks of the labour. They seem to feel that they are being denied their rightful share of the national produce, and they have not been afforded the opportunities to rise to their full stature and to give expression to their individual personalities. The middle-classes give one the impression that they have been ground down between the nether and upper millstones of an unending inflation, continued shortages and scarcities of the daily necessities. Their patience seems to have reached the breaking point, and to expect them to tighten up their belts further in the empty hope of a better morrow is to betray a sense of understanding of human nature. Men of industry and commerce also seem to have been gripped by a paralytic fear and their subdued reactions clearly reveal the fatalistic mentality that is taking hold of them. They seem to have become lukewarm and suspicious and they have their own interpretations of every Government move or directive. There

is an all-round feeling of utter helplessness and gloom. May be that I have overdrawn the picture a little bit. But to me the picture is not so disappointing, for I am myself an optimist but I do feel that only an honest appreciation of our ills and a strong and relentless determination to root out the evils alone can get us out of the woods in the midst of which we find ourselves today.

Some might argue that the present economic crisis is only a temporary maladjustment in the framework of our economic mechanism and that the current situation is only an expression of that transition. It might also be argued that the entire post-war world has been the victim of such economic maladjustments and that, therefore, there is no need for alarm or a danger signal. Some might deduce that in due time these disturbing elements will correct themselves as the world settles down to a more normal pattern of life. The protagonists of this view may say that the present phase can hardly be called a phase of "Enduring Peace" when bloody fighting and racial antagonisms still stalk a good part of the world, and that in such disturbed times a country has to undergo a period of stress and storm and, therefore, there is nothing abnormal about it.

An attempt will now be made to analyse some of the important factors that are responsible for the present *malaise*. The writer feels confident that the diagnosis will be sufficient in itself to show that the present crisis is not in any sense temporary and that its gravity and full repercussions will continue to be felt till an all-out determined effort is made to turn the corner and eradicate the cancers that are eating into our very vitals.

### ECONOMIC EFFECTS OF THE PARTITION

The Great Calcutta Killing of August 1946 was the beginning of the debacle that has almost paralysed the economic superstructure of this country. The widespread communal riots and the mob frenzy that followed in those critical months, were responsible for the nervousness and loss

of confidence which the business community displayed. The suddenness with which the partition became a reality brought in its train some of the violence and mass murders and the chasm dividing the two dominions became more difficult to bridge. The wounds that were inflicted with the onrush of partition are no doubt, difficult to heal. But time is the greatest healer. There was hardly any time for people to think and decide. It was more of a mob psychology and mass reaction that followed in the wake of division. It was difficult to anticipate all the ghastly tragedies that unfolded themselves as the aftermath of that deadly drama; and its economic repercussions are still being felt in the country and will continue to exercise a great deal of influence in the years ahead.

The Partition of India was never thoroughly analysed and publicly discussed in its full economic context. Various reasons may be advanced for this unfortunate state of affairs, but the sorry fact remains that the economic implications of the partition were never rationally worked out. Some of the leaders failed to fully appreciate the repercussions on India of the secession of the Western and Eastern Moslem Zones of Pakistan from the body politic of India. The idea of the partition was discussed mostly on the emotional, religious and theocratic planes and there was much loose talk about the economic absurdities of Pakistan. There were few who made a serious attempt to visualise and comprehend the full economic implications. Dr. Rajendra Prasad's book *India Divided* was an attempt to grapple with the problem from an objective point of view but unfortunately the woeful lack of up-to-date statistics naturally circumscribed the utility of the work.

According to the pre-war data the annual raw jute production was estimated at around 95 lakhs bales and the price of raw jute fluctuated from Rs. 18-13-0 per maund to Rs. 3-8-0 per maund.<sup>1</sup> As a result of the Partition most

<sup>1</sup> Quoted from *India Divided* by Dr. Rajendra Prasad (Hind Kitabs Ltd. Bombay), page 264.

of the raw jute growing districts went to Pakistan and our share remained at only 25 per cent. of the total production of pre-Partitioned Bengal. Furthermore, the best quality of raw jute grows in districts that form part of Pakistan. Our jute mills consume nearly 6 to 6½ million bales annually and with Indian production only 1½ to 2 million bales at the most, we are still in need of nearly 5 million bales. India, in fact, was left with all the 113 jute mills and only 1½ to 2 million bales of raw jute, while Pakistan was left with nearly 5 to 6 million bales of raw jute but no jute processing industry.

We have seen that during the war years the price of raw jute rose substantially and even in 1947 it was around Rs. 28 to Rs. 30 per maund. Throughout last year the arrivals of raw jute into Calcutta have been far from normal and the large carry over of stocks which the mills had built up in 1941 is now a thing of the past. Indian jute mills have hardly 2 months stocks' on hand. The mills are faced with the situation that some of their looms will be compulsorily idle in the near future, as the existing stocks have already been depleted to an extent unprecedented. The price of raw jute is at present quoted at around Rs. 42 per maund and yet it is difficult to get good quality jute even at this price. It is a well-known fact that only the highest grade of raw jute is required to manufacture the hessian cloth that U.S.A. needs and hessian cloth is about our biggest and by far the largest item in our exports to North America.

The consumption of Indian cotton mills has been estimated at around 4 million bales of raw cotton annually. The Partition left us with a physical production of only 2½ to 2½ million bales. The long staple cotton grown mainly from the high quality seeds imported from America and known as Punjab/American and Sind/*Desi* types was lost to India. The loss of canal colonies was in itself sufficient to give big jolts to our economy. We were, therefore, faced with the thorny problem of importing 1½ to 2 million bales of raw cotton from Pakistan, Egypt, Africa, South and

its economic existence would be extremely precarious if not completely dubious. They failed to realise the complementary character of our economy. No doubt, we have got the processing industries and also a large domestic market and foreign outlets but our dependence on foreign raw materials and foodstuffs has also been made very clear and it was a failure to accurately appraise the situation that brought some of the bickerings and a false sense of complacency. The economies of the two dominions are like the limbs of a human body and you cannot very well cut one of them without creating a very serious disequilibrium in the body as a whole. The close inter-dependence of the two economies—which is fundamentally and essentially one—should have been brought home clearly but it seems that the atmosphere was then surcharged with so many slogans and ideologies that it must have been quite difficult to gauge the full import of these basic facts. There now seems to be a growing realisation of this fact from the recent Inter-Dominion talks and agreements and it is only an honest and frank appreciation of each other's needs that may help matters. Much more has to be done before that stage will be reached. A good many of our troubles have stemmed from the failure to grapple these issues from a more rational and economic standpoint. Pakistan has also got to realise that for raw jute her best customer is India and there is a limit to which the jute mills situated in the Indian Union can be held to ransom by charging such exorbitant prices. It can only lead to increasing use of substitutes and growing consumer resistance which in the long run will jeopardise the economy of Pakistan itself. The realisation has not yet fully dawned on them that they cannot kill the goose that lays the golden eggs and yet expect to maintain a long-term healthy economy. There is a limit and once the breaking point of patience is reached it is difficult to predict the exact reactions, and the present stalemate is partly born out of this failure to reach a common ground of mutual understanding. In the present context

we need to import nearly 5 million bales of raw jute annually and at present price levels the cost would run to nearly a 100 crores of rupees. Besides, we require nearly 2 million bales of raw cotton to maintain our existing levels of production of cotton textiles and this will cost us another 80 to 90 crores of rupees when it is remembered that cotton is selling in Pakistan at around 900 rupees a candy and the Egyptian and fine African and Sudanese cotton cost even higher. On top of this, we have to spend nearly 130 to 150 crores of rupees on imports of foodgrains alone. We need, therefore, nearly 300 to 400 crores of rupees worth of foreign exchange to meet our needs of foodgrains and fibres only. Our total exports are barely enough to provide this huge amount. If one were to feel that the present prices of agricultural commodities were not going to hold at present levels, the fact cannot be ignored that our exports will also fall in monetary value. Therefore, this sense of complacency is not going to improve matters. If we have to spend all our foreign exchange in buying just the bare amount of food and raw materials, what prospects do we have of raising our industrial productivity and of being able to supply a large quantity of consumer goods? All our hopes of building up a strong, industrial edifice will have tottered to the ground.

### *THE CRISIS IN PRODUCTION*

This crisis is, therefore, not a mere financial or monetary crisis in the sense that fiscal measures can remedy the situation. Neither is it a crisis of distribution alone though the machinery and channels of distribution could no doubt be vastly improved. But the mere perfecting of the distribution channels will not increase the physical aggregate of available supplies. If there is evidence of falling economic activity in general it is not due to over-production. In the 'thirties the world was suffering from the effects of over-production. There was then a plethora of goods and a crisis in effective buying power. That was primarily a

North American countries and in the context of our slender foreign exchange resources the repercussions were bound to be serious. Pakistan was left with a surplus of nearly a million to a million and a quarter bales but hardly any cotton processing industry and India meanwhile starved for want of raw cotton to keep her mills running. Mills are closing down in several parts of India owing to paucity of stocks and the critical period should be around August/September. Thus, in respect of two of our most important fibres we emerged as net importers and our economy became much more vulnerable. Our processing industries at Bombay, Ahmedabad and Calcutta will be continuously faced with the problem of inadequate raw material supplies. This factor will loom large in their production schedules though, hitherto, it was not significant. The seriousness of the situation was far from being fully realised and the immediate effect of the Partition was to signally expose our deficiency in long staple cotton. The Partition also clearly exposed our great dependence upon imported foodgrains.

In the matter of foodgrains the Partition left India with a large deficit in both wheat and rice. It is no doubt true that Eastern Pakistan will continue to suffer from the shortage of rice but Western Pakistan is much better placed in the matter of food. Western Pakistan has a surplus of nearly  $\frac{1}{2}$  million tons of wheat. Its share of irrigated land is the highest and it can easily balance the food deficit of East Bengal. India, on the other hand lost its rich granary of the Punjab and her share of the irrigated lands is only 18 per cent. compared to 36 per cent. in Pakistan. In the face of these facts she has a much greater pressure of population as the density per square mile in Western Pakistan is only 195 as against 299 in the case of India. While India inherited nearly three-fourths of the total population her share of the land was only two-thirds, according to the recent studies of Prof. C. N. Vakil, published in the Economic Hand Book series called *The Economic Consequences of the Partition*.

## *The Current Crisis*

As a consequence, Indian economy became very dependent on import of foodgrains and raw materials especially fibres. She was no doubt left with the processing industries but most of these are worn-out and old. The fact cannot be ignored that Pakistan will make an increasing bid to start her own processing industries with modern and up-to-date plant. This of course may take some time in view of the difficulty in obtaining capital from abroad but in the long run their policy is bound to take this course. Pakistan is self-sufficient in the production of food and her foreign exchange position is much more enviable. She is fast developing the port of Chittagong by installing huge jute baling presses to speed up her export of raw jute. Large shipments of cotton are being made from Karachi. In basic needs she is economically more favoured than India. But this fact was hardly brought to the fore before the Partition. With regard to tea—our largest export item—the transit difficulties arising from the Partition were hardly visualised and Calcutta trade has been badly suffering as a result of this bottleneck. In the matter of sugar and coal, India has plentiful supplies but as her production costs are so high that Pakistan has long felt the loss of these two items. In the processing of Indian products are increasingly faced with a tough competitive position and in the absence of a common customs union Pakistan will continue to buy from the Chinese source. This attitude may be justifiable from the narrow point of view of multi-lateral trade but its serious effects on Indian economy are beginning to be felt. The absence of increase in agricultural production can only spell disaster, pest and ultimately famine. This danger signal was heeded by many who had a positive feeling of reassurance and who felt that the idea of a separate State was an economic fiat. They failed to realise that it could become a viable and living entity. They no doubt saw the deficiencies in the industrial and processing field of the new State but they thought that in the absence of these and the mir-

its economic existence would be extremely precarious if not completely dubious. They failed to realise the complementary character of our economy. No doubt, we have got the processing industries and also a large domestic market and foreign outlets but our dependence on foreign raw materials and foodstuffs has also been made very clear and it was a failure to accurately appraise the situation that brought some of the bickerings and a false sense of complacency. The economies of the two dominions are like the limbs of a human body and you cannot very well cut one of them without creating a very serious disequilibrium in the body as a whole. The close inter-dependence of the two economies—which is fundamentally and essentially one—should have been brought home clearly but it seems that the atmosphere was then surcharged with so many slogans and ideologies that it must have been quite difficult to gauge the full import of these basic facts. There now seems to be a growing realisation of this fact from the recent Inter-Dominion talks and agreements and it is only an honest and frank appreciation of each other's needs that may help matters. Much more has to be done before that stage will be reached. A good many of our troubles have stemmed from the failure to grapple these issues from a more rational and economic standpoint. Pakistan has also got to realise that for raw jute her best customer is India and there is a limit to which the jute mills situated in the Indian Union can be held to ransom by charging such exorbitant prices. It can only lead to increasing use of substitutes and growing consumer resistance which in the long run will jeopardise the economy of Pakistan itself. The realisation has not yet fully dawned on them that they cannot kill the goose that lays the golden eggs and yet expect to maintain a long-term healthy economy. There is a limit and once the breaking point of patience is reached it is difficult to predict the exact reactions, and the present stalemate is partly born out of this failure to reach a common ground of mutual understanding. In the present context

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crisis in distribution. Today, we are suffering from an acute shortage of essentials even at such high inflated levels. *The real crisis, therefore, lies in the field of production and until and unless there is more and more production of goods and commodities there will not be enough to go around.*

We have already reached the stage of economic bankruptcy and further complacency can only spell disaster. The present crisis in agricultural productivity is making the lot of present industries very precarious and will retard the development of new industries. Our economy will have to be based more on the United States and Continental economies rather than those of the United Kingdom or Japan. Therefore, the raising of both agricultural and industrial production is a primary necessity for healthy economic life. The raising of the *per capita* standards can only come about through increased productivity. The talk of a social democratic order will remain an empty cry if the production aspect is not immediately looked into. The minimum of civilised existence is enough food, adequate shelter and proper clothing. Without the basic economic needs there can be no culture and the masses will remain submerged in a state of squalor. If India wants to build up a powerful democratic State on solid foundations its leaders must be willing to take up this challenge and fight the production crisis.

## CHAPTER II

### *LACK OF A DEFINITE ECONOMIC POLICY AND ABSENCE OF PLANNING.*

THERE has been of late a plethora of statements touching on many an aspect of our economy and so very often responsible ministers have something to say on the subject. Yet we find that at no time in our recent history was there so much confusion in the public mind over matters of economic policy. The whole atmosphere is surcharged with an air of economic uncertainty and positive proof of this can be had in the fact that new industrial enterprises are almost conspicuous by their absence.

This state of affairs has come about primarily because there has been an issue of piecemeal statements about Government's attitude to grant of concessions for new and basic industries, the treatment of foreign capital, tariff policies and the role of Government and of private enterprise. There is hardly any coherence and co-ordination and the result is that the confusion of economic thinking is made worse confounded and the businessman is left groping in the dark.

No doubt speeches are desirable for clarifying and galvanising public opinion on matters concerning economic activity, but if they have to serve the purpose intended they must be properly timed. The need of the hour in this country is *not* more and more of speech-making. In the days of the liberation movement speeches were required to rouse national consciousness and muster support for the national struggle, but today the need is for hard and relentless effort which alone can get us out of the morass and bring real economic emancipation without which political freedom means so little to the common man. What matters

is action and giving a practical shape to ideologies rather than their mere propagation. This does not mean that responsible heads may keep mum on such vital, urgent matters of public policy. In fact they have to canalise energies and enthusiasm and to see that there is no wholesale misunderstanding of their policies but some definite coherence and co-ordination in the various policies and a ceaseless drive to implement them.

The writer recalls reading once in the *New York Herald Tribune* and the *Christian Science Monitor* the reactions of an influential newspaper columnist about this country. The article referred to the great speech-making that is indulged in here more especially in the cool weather. The article went on to say that it looked even more terrific than the speeches made in a Presidential election year in the United States. While it may be overdoing the picture a little it is nevertheless a pointer in the direction.

The effect of these speeches on business is precisely to cloud the future with uncertainties and no big business can flourish or come into existence if the future outlook remains nebulous. Business decisions require judgment and considerations of the future. It is these vital decisions that run the vast machinery of production and once you stop the lubrication the result is not difficult to behold. The machinery is clogged and comes to a stop. There are jerks and it very often breaks down. That is exactly what is happening to business in this country today.

When a businessman starts a new industry he has to take stock of the future supply of not only raw materials and the marketing of his finished products at economic and, shall we say, normally remunerative levels but he has also to decide about meeting domestic and foreign competition and the labour situation. The business executive has also to think about the taxation and transport policies and the future of his industrial unit. Much the same is true of the executive who runs existing units of production. If his thinking on any one of these important subjects is not

clear and remains more in the realm of speculation and conjecture how can one expect that he would dare venture and sink his own fortune in such a dubious enterprise with such a nebulous future?

Gone are the days when businessmen had a free hand in the determination of these vital economic decisions. Today their decisions are shall we say controlled by the all-powerful government machinery. Such a vast network of Government controls and regulations has been built up since the war that almost at every step in the realm of production or even distribution of industrial products one has to go by the Government directives. Commercial life has become so interwoven with Government policies that the two today must swim or sink together. It is already becoming like the two sides of a coin and you cannot just separate the one from the other without doing utmost violence to both.

This does not mean that it would be better to go back to the days of *laissez-faire*. The clock of history has never stood still. We cannot of course go back to those good old days. But if Government controls and regulations are designed anywhere with the intention to make a better and more beneficial utilisation of our economic resources and potential, the Government's policy towards business and industry must have a great deal of co-ordination and it must be bold enough to inspire confidence in the business executives upon whom depend the vital decisions of running the productive machinery.

If we cannot convince a businessman to take such a vital decision as the starting up of a new industrial unit how is one to suppose that the promoter can successfully sell the idea to the investor who is already withering from the onslaughts of the last two years' unending economic debacle and the almost uninterrupted and continued fall in share and equity values.

There is apparently no continuity of policy in regard to certain important economic issues such as nationalisation

of industries and the sphere of Governmental enterprise. Not long ago the Government said that some of the existing industrial units would be nationalised in 10 years. From the reports of the Jaipur Congress Session the feeling seems to be that their lease of life should be extended to 20 years. During the long years of our hard national struggle, the Congress championed the rights of our national businessmen who were also not being given a fair deal at the hands of an alien administration, and there was voicing of the popular sentiment that the foreign predominance in some walks of our commercial life should be ended. We now find that foreign capital is being invited and 'very little is known—under what national safeguards.

This does not mean that Government policies must always remain static and not adjust themselves with the fast changing socio-economic conditions, but a fair chance has to be given before a radical departure in such important policy-making decisions is made.

There is no use saying that in a democracy continuity of policies is not feasible. Every political party must have a certain and definite economic programme and it must have the energy and determination to carry it out. Let us take, for example, the labour party Government in England. When the labour party came into power it had before it a certain well-defined socio-economic programme. It had, for example, the nationalisation of coal mines, the Bank of England, the transport and health services of the nation on its agenda. There is no doubt that the Labour Government can be ousted from office any day that it ceases to have a parliamentary majority in the House of Commons but this does not mean that it cannot chalk out and implement a bold economic policy.

Every political party in office has a certain amount of confidence and tries, as hard as it can to remain in office. There is no doubt that in countries with a vast conglomeration of political parties the stability that is so essential to a bold economic policy may be lacking, as in France. But even

then the party in office is ever anxious to pursue a definite economic programme that is in keeping and consonance with its well-accepted ideologies. Any political party in office attempts to put up a satisfactory programme before the electorate in its desire to win the next election.

Even in the United States the administration clearly lays down its economic policy. The late President Roosevelt enunciated his "New Deal" and we are now hearing of another "New Deal" from Mr. Truman. The fact that the United States is a political democracy does not deflect it from pursuing with vigour the economic policies to which the political party in power is wedded to.

Our Government has of late shown its anxiety to fight the evil of inflation which has been raising its ugly head in the midst of our economy. The problem of inflation is however not peculiar to our economy and practically every country has had some dose of it. An idea of the present inflation in our midst can be had when we compare the present price of *Red Srinathi* rice at Patna currently selling at Rs. 19 per imperial maund compared to the pre-war price of Rs. 3.<sup>1</sup> "Ready dara" wheat is quoted in Hapur at Rs. 23 per maund compared to the pre-war price of Rs. 2-12-2.<sup>2</sup> Mustard oil is quoted in Calcutta at Rs. 72-8 per maund against the pre-war price of Rs. 16-13-4.

Naked raw coconut oil is quoted in Bombay at Rs. 26-4 per maund against a pre-war price of Rs. 3-1-6.<sup>3</sup> Tea is currently quoted at Rs. 1-6 which used to sell at 4 annas per lb.<sup>4</sup> In the field of housing we are all familiar with such practices as the '*Salami*,' *Pugree* "Sale of Furniture," etc. and the tremendous increase in the urban population as a result of the war, its aftermath and the Partition, the

<sup>1</sup> Quoted from *Commodity Prices in India, Commerce*, dated 15th January, 1949, page 61.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

increasing influx from rural areas and the general increase in the numbers have all contributed to the great housing shortage and its large share in the typical family budget. These two items more than anything else constitute the bulk of an average family budget today. There is not much left even for the barest clothing and much less for the other needs of a minimum civilised existence.

This situation was no doubt largely aggravated by the large amount of war-financing which we witnessed during the war. The pre-war note circulation in India was estimated at 180 crores and it swelled to over 1,200 crores. In the absence of any commensurate increase in the physical production of goods and commodities there was bound to be such a crisis when more and more money chases less and less goods and we have seen that the average index of wholesale economic prices stands at 380 currently against the pre-war base of 100.

The Government has tried to show much zeal and enthusiasm to fight this evil of soaring prices, through liberalisation of imports, stringency of money conditions and directives to banks to restrict speculative advances, increased food imports and a gradual return to the controlled economy in food and clothing.

In the ultimate analysis the present inflationary crisis is born out of the crisis in production and so far there has been hardly any drive to increase our physical production of agricultural and industrial goods and commodities.

The full gravity and seriousness of our short-term crisis has hardly been realised and fully appreciated. There is more and more dependence on imported foodgrains as each year rolls by. We have seen that every year our food needs are mounting so much so that we will require nearly 150 crores of rupees to purchase the 4 and odd million tons of foodgrains that we need and next year it may be of the order of 200 crores. There is hardly any sign yet of the world agricultural production catching up with the food needs of a hungry world and therefore it would be rash to

expect a big landslide in agricultural prices to cushion our needs in the near future. At the present rate we are spending nearly 50 per cent. of our current foreign exchange earnings on the import of foodgrains alone.

If the present state continues the time may not be far off when almost all our export earnings will be dissipated in buying food. We have also got to remember that our export trade has been sluggish in the past 8 months owing to the prevailing high prices and our future prospects of large foreign exchange earnings are none too rosy.

This year we are drawing from the International Monetary Fund to the extent of nearly 62 million dollars but we cannot very well afford to do so every year. We have told them of our temporary adverse balance of trade but if such large scale import of food becomes a permanent feature of our future economy that door must also sooner or later be bolted against us. Its realisation may yet be far off but the writing is already on the wall. We can of course ignore it, if we please, but only at our mortal peril. The dissipation of such large amounts of scarce foreign exchange means that we must forego our expenditure on such essential items as the replacement of our worn-out and war-torn plants, the indefinite postponement of our schemes of industrialisation and setting up of new enterprises and casting to the winds all hopes of rapid economic development. Indirectly, it is a fillip to the already acute inflationary momentum since we are denied import of capital goods and machinery to that extent and ultimately it means that we are perforce limited and physically handicapped to increase our physical production. In the long run it spells disaster and it can only mean increasing ruralisation.

There seems to be hardly any zeal to increase our agricultural production in this short-term period. Whatever little the Government seems to be doing in the way of Damodar Valley projects, the Hirakud Dam and the other multi-purpose projects are all long-term approaches and

hardly any appreciable results can be expected before 10 to 15 years. What happens to us in the short-term seems to be hardly anybody's concern! The fact, however, is that if we allow our present production crisis to continue and develop we shall be seriously jeopardising our economic future and all our hopes of an expanding economy and the harnessing of our vast, untapped natural resources will come to rest on foundations of quicksand.

Recently Government spokesmen have shown anxiety to fight the bogey of deflation as well. One cannot understand how the Government will be able to fight both inflation and deflation at the same time. This only shows that there is really no policy. When the pressure of public opinion brings the problem of inflation to the fore the Government shows its anxiety to bring down the price-level by issuing statements. When business sections bring their sad plight to its notice the Government spokesmen harp on their intentions to arrest the deflationary trends. This reveals very clearly the policy of vacillation and the desire to pursue a mild course of action. The middle path is the safe course in ordinary circumstances but when the country is faced with an economic crisis of unprecedented magnitude such an attitude of mind can only mean economic disaster for the country as a whole.

It is not mere liberalisation of food or consumer goods imports or a mere handling of our monetary and fiscal policies in a deflationary manner that can provide a real, effective and long-term answer to the bogey of inflation. Even the reimposition of Government controls in the absence of an efficient and organised machinery of procurement and distribution cannot do the magic and create conditions of plenty.

There have been conferences and calling of foreign experts from U. K., U. S. A. and even Germany to advise the Government on technical matters. There is no doubt that this spade work is essential in any economy but without

an enunciation of a clear-cut, well-defined, bold and daring economic policy and the vigour to pursue it ceaselessly, there will always remain room for speculation and conjecture and it will ultimately defeat its own ends.

We have seen that the lack of a definite economic policy to tide over our short-term crisis and lay a broad, enduring and stable basis for the long-term developmental projects has only resulted in a growing feeling of lack of confidence, wavering in the public mind and there is a feeling of fatalism and a nihilistic approach. These symptoms clearly reveal the existence of such a situation.

Government today cannot take up an attitude of just "wait and see" and allow the cancer to develop further. For good or ill the Government has to make up its mind to pursue a resolute and firm course of action in economic matters. Merely by voicing pious sentiments and calling upon different sections for a change of heart cannot materially change the conditions. To put faith in such cures is to betray an understanding of the weakness of human nature. A mere appeal to the better side of human nature can no doubt work psychological miracles and instances may be cited when leaders have galvanised popular opinion during a war but when it comes to the solution and cure of an economic crisis mere tinkering cannot enable us to turn the corner.

There is hardly any sign of a determined drive to fight this crisis in our production field and this is one of the most potent factors leading to the present mood of despondency.

Net increases in the physical production of our agricultural and industrial economy cannot come about by preaching lofty ideas but the crisis can be solved only by creating the necessary conditions in which it will be possible for the productive forces to come into full play and to make the contribution that is expected and needed of them.

We shall proceed to analyse some of the factors and policies that are responsible for the continued stalemate

and the apathetic attitude of these segments of our economic order.

### NO EVIDENCE OF PLANNING

Towards the close of the war and immediately after its successful termination the atmosphere was surcharged with cries of planning. The term had become so familiar that it was almost a catch-word. So many plans were in the offing and even the slow, bureaucratic machinery of the British Government was beginning to wake up and a number of post-war reconstruction schemes were evolved.

There is, however, hardly any evidence of planning in our economy today. Let us take the examples of two of our most important national industries—sugar and cotton textiles.

The current production of white sugar during 1947-48 amounted to 10.75 lakh tons<sup>1</sup> and in the pre-Partition days at least 180,000 tons was normally consumed in Pakistan. Today Pakistan buys from other sources and news was received that she had bought 30,000 tons of Brazilian sugar alone.<sup>2</sup> The Indian mills have been left holding the baby and for the major part of 1948 the mills were suffering from high stocks of unsaleable sugar and the banks have had no incentive to advance loans against these stocks. The problem of disposal of stocks is bound to come to the fore in an acute manner next year—as the quantity available for consumption would be of the order of 13½ lakh tons. Our annual consumption is estimated at not over 1 million tons. There would be a carry-over of 2½ lakh tons from this season's production and estimating the same production next year the country would be faced with the serious problem of getting rid of this huge surplus of 3½ lakh tons. Based on the present prices it looks impossible to attract

<sup>1</sup> Quoted from *Commerce*, Annual Review, November, 1948.

<sup>2</sup> Quoted from *Capital*, dated 21st, October, 1948, Commodity Reports

any foreign buyer as reports from Pakistan show that white sugar is currently quoted abroad at half the price and is obtainable from both soft and hard currency areas. Cuba has offered large quantities of sugar at half the price quoted in the Indian Dominion.

Burma, Ceylon, the countries of the Near and Middle East are all in need of sugar. In fact, during the war the Near and Middle East countries were kept supplied with sugar by the United Kingdom Commercial Corporation which was said to have done fabulous profiteering as the Indian consumer was then denied a fair share of purchase. But all these countries are in no position nor will they be willing to pay the present high prices being asked for sugar in this country. It seems that even the hard-earned export markets built up during the war at tremendous sacrifice to the country have been allowed to be lost overnight. It is generally accepted that it requires a considerably long time to build up a long-term market and it is only through careful nurture and appreciation of foreign needs that can help to retain them. The loss of foreign markets involves, in the final analysis, the loss of so much valuable and desperately-needed foreign exchange.

There is no evidence to show that any steps have been taken to safeguard the future of our sugar industry. To neglect it would mean the wasting of last 20 years' efforts and casting to the winds the tremendous sacrifices of the consumer who really bore the burden of protection. In the face of all these factors Import Licences have been issued in the past to import more sugar plants and there have been schemes under way to further increase production. Even foreign exchange has been allowed and to what end? Reports show that the Assam Government alone is installing a new sugar plant very shortly. West Bengal is also setting up new plants. Madras is going ahead with expansion schemes.

The existing units are finding it increasingly difficult to eke out an existence and are faced with an extremely tough situation. Unless the production costs can be brought

down and export markets regained and developed disaster is only around the corner.

Examining the position of the cotton textile industry—our biggest national enterprise—we find that mills are not able to procure the cotton that they need at the ceiling prices fixed by the Government. There is a scramble going on to buy raw cotton stocks. Mills have even had to perforce purchase *kapas* and seed and there is reason to believe that cotton has been sold at prices higher than ceiling. In the face of these factors the mills have been asked to produce textiles mainly of coarser counts. A study of the piecegoods market of Bombay and up-country centres shows that there is much more emphasis on fine quality textiles and consumers do not show much interest in the coarser counts.

Reports reaching from Indore—Central India's textile centre show that more than 3 crores of rupees of capital of the mills is locked up in stocks that cannot be moved and sold. Stocks of coarse cloth are steadily increasing even in Bombay and Ahmedabad. Cotton mills have had to close down in Cawnpore owing to paucity of raw cotton. Stocks of unsold cloth have been accumulating with the mills even in West Bengal. A number of mills situated around Calcutta have sent deputations to the Textile Commissioner in Bombay but to no avail. Financial crisis looms large. The present price of raw cotton is nearly  $4\frac{1}{2}$  times pre-war. The pre-war price of 200 rupees a candy compares with nearly 900 rupees today. Egyptian and African cotton is quoted around 1,400 and even higher. Some people might argue that the mills have been making too much money and keeping the price of cotton cloth at these high levels. The fact is that nearly 57 per cent. of the total costs are accounted for by raw cotton and only 7 per cent. is available for profits and depreciation. This fact is not widely recognised. It would be foolish to expect the industry to eat into its past reserves. Such a situation can of course last for a while but to expect industry to sell

below its costs over a long period of time is to destroy the very base on which the industry stands. The trouble is not much with the price as the absence of any plan for effective distribution on the one hand, vexatious controls over production of coarse counts and the failure of the ceiling price. The failure of a procurement plan is creating headaches.

For the production planners of our textile units the recent statement of the Food Minister in the Dominion Parliament shows that there is no plan for raising of our agricultural production. The Food Minister complained of lack of funds. There is hardly any minister who will admit that he had plenty of funds but this is no excuse for complacency. Funds have been forthcoming for buying food-grains even from dollar areas. Could they not be available for raising internal production which would stop the recurring drain. The real bottleneck is the absence of a drive or a clear cut plan.

Such is the situation in the midst of what may be properly termed as virtual cloth famine. The common man has suffered for many years since the war and he has had to defer his clothing requirements from year to year in the hope of better times when he would be able to buy adequate quantities at reasonable prices. He still seems to want cloth and yet, the mills cannot tempt the quota-holders to take up the quantities that they have in stock. Does it show any sign of planning and co-ordination?

There is hardly any plan to raise our immediate agricultural production. There is complete absence of production targets nor are any measures being taken to arrive at such targets and to devise the machinery to implement them. There is even no plan of industrial development, the starting of basic industries nor any order of priorities indicating the basis of such a plan. The present trends do not even show that the blueprints of a plan are being formulated, although it has been generally admitted that economic development on a vast scale is not possible without

some sort of a plan in the context of today's economic conditions.

Looking at the field of civil aviation we find that this country is ideally situated for the development of air routes. Its vast distances and the generally good weather for flying that prevails for most of the year over most areas of this sub-continent provide the necessary conditions for a healthy growth of air services. Immediately, after the war there was a tremendous rush to start airlines. All the airlines, were however, required to take out licences from the Government to operate over certain air routes. In the last 3 years we have seen the birth of a host of airlines and the position today is that most of them are suffering losses, as there is not sufficient air traffic on the competing routes and yet no attempt is being made to cut down this wasteful expenditure of resources and materials. The continuance of the present situation can only mean that whatever little financial cushions the existing airlines have left will be sooner or later dissipated. No one will doubt that over a long period of time a healthy growth is essential if only from a purely defensive and military standpoint. The continuance of present policies and administration of controls does not bear any sign of economic planning in the long term interests of the country's economy. In this connection it has got to be remembered that such precedents not only weaken the existing base but act as a deterrent to fresh activity. After all, the present working provides some sort of an index of what may be reasonably expected in the future.

Towards the close of 1947 the Government was coming round to a gradual return to the free economy of the pre-war days and this was undoubtedly a definite reversal from the war-time policies of an ever increasing sphere of Government controls. The champions of decontrol were, therefore, not surprised when the announcement of the partial relaxation of the control on the textile industry came towards the third week of January. All controls were lifted by the Government on the prices of textiles in April, 1948 and for

the first time since 1943, cloth was available in the free and open market at prices determined by the forces of supply and demand. Controls were also taken off on foodgrains.

The immediate effect of this change in policy was that prices of foodgrains and clothing registered sharp rises. This was of course, only a natural consequence. The forces of pent-up demand that had been built up since the war were bound to reassert themselves. The consumer had been denied the right of free purchases and he naturally jumped forward to exercise his freedom in this field once again. There have been loose reports current that nearly a 100 crores of rupees were made by the millowners during this period. It is, of course, hard to arrive at any precise figure. But there can be no denying that in the initial period some price had to be paid to reach some sort of a workable basis. The one good result of this policy of decontrol is borne out by the production figures. In the first half of 1948 cloth production was of the order of 2,130 million yards as compared to 3,850 million yards for the whole of 1947 and the yarn output was also 900 million lbs. as against the total 1947 output of 1,300 million lbs.

In the long run this net increase in physical supplies and the frittering away of the pent-up demand was bound to bring the deflationary forces into active operation. Just when these forces were beginning to make their appearance felt towards the middle of last year, the Government decided to switch back to controls once again. Many analysts of the piecegoods market in Bombay and other centres still have the feeling that if the decontrol policy had been allowed to continue for any length of time it would have surely and absolutely brought down the prices to more reasonable levels. A few months was hardly enough time to pass judgment on the failure of such an experiment. In the first place, the relaxation of controls was in itself a fallacy if an eventual return to control was contemplated and if, the decontrol policy had really been introduced after careful thought it should have been allowed to operate over a longer period of

time. So far as the consumer is concerned he has been no gainer—whether under the control regime or the aegis of a brief decontrolled era.

Towards the end of July, however, Government decided to reimpose controls on textiles as well as in the matter of foodgrains. The position today is that the present control prices are being fixed at much higher levels than when the controls existed in 1947. The decontrol period saw a substantial rise and the new controls have had to take stock of these increases. It can only mean that the new controls are designed more or less to stabilise the new high levels for the consumer is denied the right of free purchase and perforce he must pay the prices asked for. In other words, the reversal to the policy of controls means a stabilisation of existing price levels. In the matter of foodgrains, since the announcement of the new food policy, the wheat prices in East Punjab are over 100 per cent. higher after decontrol and in the U. P. they ranged between 58 per cent. and 100 per cent. higher than in 1947. Most of the Provinces and States have reintroduced rationing, but the basis is restricted due to the absence of supporting stocks. Even the Foodgrains Policy Committee clearly emphasised in its report on the Bengal Famine that rationing could only be made a success if there were sufficient stocks of reserves and an efficient and planned system of distribution and procurement. The number of towns where there is controlled distribution at present is 370 with 74 million people as against over 1,000 towns in 1947 before decontrol with over 140 million people. In the context of these factors the present control policies will tend to stabilise existing high level of prices and instead of fighting inflation may actually tend to sustain it. Do they reveal any sign of economic planning? The policy of controls followed by decontrol and now a switch over to re-controls shows that there is no basic continuity in such important matters and decisions are arrived at more in the nature of a drift than real stock taking.

## CHAPTER III

### *THE CRUSHING BURDEN OF TAXATION*

THE level of taxation in India before the war was very low when compared to the then existing taxation levels in countries like United Kingdom, and the United States, and there was considerable emphasis on indirect taxation through high import duties, excise and cess duties. The level of direct taxation was so low that the total yield from Income-tax was estimated at Rs. 17 crores for the whole of India. The war no doubt saw a tremendous increase in public expenditure throughout the world and it was the endeavour of every Government to raise as much revenue through taxation as possible without, however, destroying the incentive for increased war-time production. The yield from Income-tax increased tenfold as the revenue from this source exceeded 170 crores. During the war, at least, the hope was held out there would be a refund of the *blocs* of money that had been collected as excess profits tax but the recent announcement that their repayment has been postponed for another 3 years except for purposes of capital machinery purchases, has also had a dampening effect on the investment classes.

The historical Liaquat Ali Budget which was introduced with the avowed intention of "Soaking the Rich" had a disastrous effect on our economic framework and we have hardly even begun to climb on the road to recovery. Taxation can only be carried to a point where there is room left for a fair normal return to capital and incentive for adventure and fresh enterprises. If the taxation policies over-step these bounds they weaken the base of industry. Broadly speaking, business and industry have been subjected to the rigours of a taxation system in the last 2 years that has over-stepped ordinary bounds.

There is no doubt that this country was suffering from the ills of inequitable distribution of wealth and the gulfs that separated the rich and the poor classes were far greater and much more glaring than those which one observes in the economically advanced countries of the West. No one can deny that a more judicious and equitable distribution of wealth is the basic essential of a smoothly functioning and an harmoniously adjusted social order. So far as the taxation policies are designed to narrow down the vast gulf separating the various economic classes is concerned there will be hardly any disagreement in principle but when taxation is carried to an extreme it kills the incentive to produce and the initiative to adventure and reduces the physical productivity and the result is a general lowering of economic standard for the entire community.

In the early stages of the development of economic thought, much more attention was paid to the production side of the economy, and the distribution aspect did not receive the attention that it merited. Later on, however, the growth of liberal economic ideas and the doctrine of "Socialism" did much to act as a corrective. Under the championship of Karl Marx and Fredrick Engels the distribution aspect come to the foreground. India began her industrialisation long after the advent of the Industrial Revolution in England, Germany, the United States and Japan and whatever few industrial enterprises have grown up in the inter-war years have barely touched the fringes of our economic potential. Unfortunately, the production aspect in our economy was not so much emphasised and there was a feeling among many people that a mere change in the distribution system of our national income will lead to a general betterment of our living standards. If Russia has contributed to a scientific study of the distribution aspects of a country's economy, the United States has remained the unquestioned leader in production and has demonstrated in actual practice how a country, through continually

increasing production, can come to enjoy the highest economic and material standard of living in the world.

Let us examine the position realistically and see how far a mere transference of wealth from the higher to the lower strata can work the magic and bring about the millenium of workers' fond hopes. According to Dr. V. K. R. V. Rao's estimate of the National Income of British India, out of a total of 27.9 millions engaged in non-agricultural occupations, one in 31 had an income exceeding Rs. 1,000 a year.<sup>1</sup> The number of assesseees with incomes above Rs. 30,000 per year totalled only 512 taking into account 199 Hindu undivided families, 258 unregistered firms and 55 associations of individuals.<sup>2</sup> It is no doubt true that there has been a significant change in the range of higher incomes in the last 7 to 8 years as a result of the rising prices and the abnormal war-time earnings and there has also been a certain amount of tax-evasion, concealment of incomes, under-statements of actual profits, blackmarket and profiteering. The fact remains that in a predominantly agricultural country with such a low *per capita* productivity the figure will not be inflated very much. According to a recent estimate of our National Income published in the *Commerce Annual Review* Number of 1948 the incomes assessed to Income-tax were estimated at Rs. 6,140 millions and represent only 12.4 per cent. of our total National Income. The present-day *per capita* income is estimated at Rs. 213 as against Rs. 65 calculated by Dr. Rao in 1931-32. Considering the rise in the price-level of goods and commodities of mass consumption there has hardly been any increase in the real *per capita* income of the average earner.

The mercantile and industrial classes no doubt were reaping large gains but even if the entire income that is earned by the upper income classes is freezed, confiscated

<sup>1</sup> Quoted from *National Income on British India*, by Dr. V. K. R. V. Rao, page 129.

<sup>2</sup> *Ibid.* Table 28, page 127.

or re-distributed, it would hardly raise the *per capita* income of the average earner by a rupee or two. One cannot see how there can be a very significant change in the lot of the common man merely by this surgical operation. It is also to be remembered that at least a part of the income of these classes is due to their increased sense of responsibility, risk-taking, education and initiative. It is not possible to expect that these classes could make their contribution to the economic and social structure of the community without expecting a fair amount of compensation.

According to an estimate on the "Distribution of Revenue and Expenditure among Rich and Poor" (1936-37) made by Prof. D. G. Karve<sup>1</sup> the richer classes bore a burden of 62 crores and reaped gains of 83 crores as against the poor classes who contributed 80 crores and enjoyed advantages of 36 crores alone. There will be no disputing that the taxation policies aimed at correcting this injustice and disequilibrium without materially reducing the physical productivity will receive warm support from all enlightened sections of our people.

We have, however, to examine the recent trends in our taxation policies and appraise how far they are actually helping or retarding our physical production and the growth and development of a healthy and expanding economy.

Under the present rates of income-tax and super-tax, a person with an earned income of Rs. 1 lakh is left only with Rs. 48,600; a person with an income of Rs. 2 lakhs gets only an additional Rs. 6,200. In the case of incomes in the range of 10 lakhs the net amount left after taxes is only 85,300. This means that more than 91 per cent. of the income goes in taxes. Is it possible for any substantial amount of savings to accrue if the present tax structure remains what it is? It is not possible for anyone to roll in wealth under these circumstances. A few groups or individuals may practise tax-dodging and blackmarketing but that is no criterion of a healthy economic growth.

<sup>1</sup> Quoted from the *Economic Problems of Modern India*, Vol. II, page 458.

The effect of the present high rates of taxes has been to drain most of the cash reserves of the companies and their demands for both long-term and short-term capital requirements are mounting every day. The banks are finding it none too easy to accommodate these demands. After World War I the companies were faced with a difficult problem of readjustment to post-war conditions but the transition was not so painful in view of lower rates of taxation then prevailing. Looking at the net profits of the companies and their cash reserves we find a steady decline in last 2½ years. The working of a few representative companies in the cotton, jute, iron and steel, coal, sugar and miscellaneous industries clearly illustrates the situation. The following figures of the trend of profits will throw light on the subject.

COTTON MILLS—

		1915	1946	1947	
		Rs.	Rs.	Rs.	
Bradbury	... ..	36,98,369	27,94,427	21,23,113	
		Dec. 1944	Dec. 1946	Jun. 1947	
		Rs.	Rs.	Rs.	
Buckingham & Carnatic	... ..	27,73,344	9,98,043	2,62,933	
				(Loss)	
		1941	1942	1946	Mar. 1948
		Rs.	Rs.	Rs.	Rs.
Dawn	... ..	7,73,282	7,67,340	2,71,876	31,878

SUGAR MILLS—

		1943	1945	1947	
		Rs.	Rs.	Rs.	
Champan Sugar Mill	... ..	9,42,440	5,27,488	2,44,506	
		1943	1946	1947	
		Rs.	Rs.	Rs.	
Shree Sitaram Sugar Co., Ltd.	... ..	4,14,870	1,18,118	1,24,602	
		1943	1945	1947	
		Rs.	Rs.	Rs.	
U. P. Sugar Co., Ltd.	... ..	4,52,950	2,91,787	2,04,143	

	1946	1947
ENGINEERING IRON & STEEL—	Rs.	Rs.
Burn & Co., Ltd. ... ..	22,09,004	10,84,360

	1942	1943	1946	1947
	Rs.	Rs.	Rs.	Rs.
Indian Iron & Steel ... ..	97,05,206	88,41,895	86,92,146	32,41,093

	1942	1945	1947
	Rs.	Rs.	Rs.
Steel Corp. of Bengal ... ..	67,36,961	73,07,461	48,66,840

	1941	1942	1947	1948
	Rs.	Rs.	Rs.	Rs.
Tata Iron & Steel ... ..	4,62,84,521	4,72,83,945	3,86,95,444	2,94,44,495

	1944	1945	1947
CEMENT—	Rs.	Rs.	Rs.
Associated Cement Co., Ltd. .	1,71,13,418	1,81,95,826	1,20,98,775

	1944	1945	1947
	Rs.	Rs.	Rs.
Dalmia Cement Ltd. ... ..	34,02,889	20,23,354	16,57,643

	1944	1946	1947
CHEMICALS—	Rs.	Rs.	Rs.
Dhrangadhra Chemical ... ..	20,00,366	9,25,848	381,269

	Dec. 1943	Jun. 1945	Dec. 1946	Jun. 1947
PAPER—	Rs.	Rs.	Rs.	Rs.
Upper India Couper Paper Mills Co., Ltd.	3,19,931	3,16,072	2,57,442	2,49,396 (Loss)

	1935	1940	1946	1947
POWER—	Rs.	Rs.	Rs.	Rs.
Tata Hydro-Electric Power Supply Co., Ltd.	28,20,481	27,37,950	27,12,435	20,32,063

			<i>May 1946</i>	<i>Nov. 1946</i>	<i>May 1947</i>
JUTE—			Rs.	Rs.	Rs.
Cheviot Mills	...	...	3,76,466	3,94,916	1,77,889
			<i>Mar. 1946</i>	<i>Sept. 1947</i>	<i>Mar. 1948</i>
			Rs.	Rs.	Rs.
Champdeny	...	...	9,56,519	4,18,416	4,12,214
			<i>Jan. 1945</i>	<i>Jan. 1946</i>	<i>Jan. 1947</i>
			Rs.	Rs.	Rs.
Craig Jute Mills	...	...	3,60,959	2,48,401	1,60,972
			<i>July 1947</i>	<i>July 1947</i>	<i>July 1947</i>
			Rs.	Rs.	Rs.
			3,60,959	2,48,401	1,60,972
			1,78,125		
			<i>Sept. 1944</i>	<i>Sept. 1945</i>	<i>Mar. 1946</i>
			Rs.	Rs.	Rs.
Gourepore	...	...	26,54,552	22,25,508	17,71,693
					6,07,308

			<i>July 1944</i>	<i>July 1946</i>	<i>July 1947</i>
COAL—			Rs.	Rs.	Rs.
Katras Jherriah Coal Co., Ltd.			5,23,333	2,66,444	2,00,192
			<i>Oct. 1944</i>	<i>Oct. 1946</i>	<i>April 1947</i>
			Rs.	Rs.	Rs.
New Beerbhoom Coal Co., Ltd.			2,54,065	1,63,973	83,678
					(Loss)
					1,48,252
					(Loss)

The present high rates of taxes are particularly discriminatory against new enterprises and concerns which naturally require to build up adequate reserves. In the initial period the new company must have a certain amount of exemption if it is to come into its own.

If the companies are not left with any reserves their capacity to withstand losses is impaired quite considerably. In a deflationary period a large cushion of cash resources is absolutely necessary and many a company may face bankruptcy when it finds that all its resources and money is lying locked up in goods that are continually depreciating.

This does not imply that inefficient units should be allowed to eke out an existence irrespective of their competitive ability. There is always the law of natural selection at work in business as in life.

Some Government experts and spokesmen may argue that there has been a staggering growth of fortunes in the last few years and that there was considerable manipulation of accounts and evasion of taxes.

They might also argue that these fortunes were made at a time when the world was in distress, and raise ethical notions about the propriety of fortunes amassed in this period but let us examine the position rationally and not from a biased or emotional plane.

It must be conceded in all fairness that every war brings in its train a certain amount of evil. That seems to be the inescapable conclusion from a study of wars at different periods of human civilisation. The recent war coming, as it did, after the long depression years of the 'thirties, could only be prosecuted if sufficient incentive was forthcoming for the great endeavours that it involved. Apart from the ethical considerations, the crude fact remains that the profit motive remains the most potent incentive that can elicit a great amount of endeavour and effort that is the pre-requisite of a production drive. It was this incentive, more than anything else, that was responsible for the tremendous increase in the physical production of goods and commodities in the continental United States. The national income of the U. S. in 1941, its last pre-war year, was in the neighbourhood of 100 billion dollars. In 1945 the production in U. S. rose to almost 200 billion dollars. Apart from the monetary rise in the prices of goods and commodities the index of net physical production almost doubled and it was this production miracle that shortened the length of the war. Never before in human history has production been doubled in the course of such a short period of time. Even in Britain where the production miracle was far short of that in the U. S., primarily because Britain is more of a foreign trading nation rather than a country with a vast industrial superstructure, yet, staggering fortunes were made in the United Kingdom with all the rigours of the world's toughest taxation system. In defeated countries

also, fortunes were made while the boom lasted and these facts are corroborated by the study of the course of industrial fortunes in Germany such as that of Krupp, Thyssen, Siemens, I. G. Farben and others who were the pillars of continental industry.

India, also like the rest of the world, saw the growth of big fortunes in this period. In this country there was hardly any patriotic fervour as most of our nationalist leaders were behind the bars and the economic machine was just whipped up by the lure of monetary gain. It was, therefore, only a logical corollary that there was laxity in the collection of taxes and it was partly unavoidable as the machinery for the collection and assessment of the increased revenue simply did not exist in the beginning in the measure that was necessary. Prof. Sinha in his address before the Hyderabad Economic Conference put forward his estimate at nearly 500 crores of rupees made through blackmarketing and tax evasion. There is, however, no valid data to arrive at a precise figure. Whatever the amount involved, there is no denying that these practices raised their ugly head in the last few years.

The task of the tax gatherer is nowhere very pleasant, but in India it may be even more so as we had been subjected to alien rule over a very long period of time and it was one of the planks of our liberation movement to non-co-operate with the then Government machinery. Partly, because of the prevalence of this psychology and partly because economic life here is not so well organised the chances of tax evasion may have been greater in this country. In this connection, the question about the work and the scope of the tax-investigating commission comes up. One had previously assumed that the work of the tax-investigating commission would be confined to large cases where the amounts involved were so fabulous as to give rise to justifiable suspicion, and where there was a *prima facie* ground of manipulation of accounts, dishonest intentions, malpractices, etc. If the Commission was to confine its labours to such

groups, it could still merit justification, but the trend of events does not bear out even this hope. The latest directive and ordinance which has been issued to the banks, asking them to furnish complete detail of accounts having more than 25,000 rupees in fixed deposit and 1 lakh in current floating account in the last 7 years is going to extremely paltry limits imaginable. Anyone who is least conversant with the day to day practice of trade and industry would realise that these amounts are a trifle in daily business. It is not so much a question of the technical difficulty which the banks' staff and personnel will be definitely subjected to in the compilation of all these queries, but the fact has to be faced that such directives have one sure reaction—and that is to undermine whatever little business confidence remains in the market. It not only creates a fear of undue harassment but it also tends to destroy the faith even in the sanctity of bank accounts. If the current trade conditions are any pointer, such directives do much more harm than good and make it extremely difficult for business to be organised on an expanding basis.

Gone are the days, no doubt, of the sanctity and the privacy of a person's banking account, which was one of the cardinal principles and foundation-stones of an economic democracy. One does not feel sorry for the change. Change is the law of life. But the mercantile and industrial community has got to be assured and taken into confidence that there will be no undue harassment and their suspicions have to be allayed.

Now the suggestions have come forward that it will be possible for the so-called tax-evaders to reach some sort of a compromise through a compounding of their cases. The question is, where is the machinery that will enforce these claims with the justice that they merit? Even the highest officials have admitted the existence of corruption prevalent at present. How much more corruption these directives will engender can be better imagined than said. Already, the tax-gathering officials are faced with the shortage of

experienced personnel, and there is no doubt that if this onerous task is carried to an extreme it will make their work infinitely more cumbersome. One cannot see how it will be possible to recruit in such a short span of time, such a large nucleus of trained staff having high standards of integrity and imbued with a sense of justice.

It seems that these recent policies are chiefly concentrated on the past and somewhat on the present but with complete indifference to the future. The future is inseparably linked with the past and the present and there is a certain sequence of events, which has got to be respected. The question is how far is it possible and practicable to punish the few wrong-doers of the past without causing grievous harm to the general business community? What is needed is not a crude retributive attitude in their punishment, but a progressive and broadminded outlook which alone can help matters.

If a larger amount of money is required by the exchequer out of taxes, it can only come if there is a substantial increase in national income, which means a net increase in our physical production of goods and services. Merely by squeezing a handful of individuals and groups who might be having comparatively more resources than others, we cannot in the long run increase the taxable capacity of the people. The exchequer must try to first increase the taxable capacity of the community before the additional levy of taxation is made on the people and the machinery of tax-assessment and collection has got to be reorganised and made efficient. It also involves the inculcation of those finer impulses which make for increasing consciousness and a more developed patriotic sense both in our business and public services.

The fact is that when taxation is carried to extreme limits, it creates the conditions that are exactly opposite to those intended by the exchequer. By killing the incentive it reduces production which ultimately results in progressive inflation. In short it kills the goose that lays the golden

production, even the most perfectly devised system of income distribution cannot work miracles and usher in the era of plenty. "Without some lightening of the load of direct taxation there is neither scope nor incentive for the investing classes, who are necessarily in the higher income-groups, to furnish funds for new enterprise or to replenish the working capital of existing concerns, particularly as the prospects of future profits have been perceptibly diminished by the introduction of restrictive measures such as dividend limitations and the prospect of more in the form of profit sharing. Governments everywhere are too prone to expect to have it both ways and past experience here and elsewhere suggests that the Government of India will not succeed in squeezing the last pip out of the tax-payer and at the same time sustain him in his role of investor. As Mr. Sampat Iyenger said in his address: "The psychology of the business world is not a mystery as is sometimes stated; it simply runs on human lines." The too simple Gladstonian assumption that all money left in the pocket of the tax-payer will automatically fructify has long since been discarded. But if the country is to have a regular reservoir of savings to draw upon for future social and industrial benefits, some money must be left to some tax-payers and there must be faith in their discretion to use it wisely. <sup>1</sup>

In the context of today's economic circumstances the earning of fortunes in the future is becoming well-nigh impossible. Therefore, if large revenues are expected in the tax field in the future the Government must first try to restore business conditions which will ensure the free flow of investment activity. It will have to be a departure from present policies if the enthusiasm of the investor and the *entrepreneur* has to be brought into foreplay once again.

<sup>1</sup> Quoted from *Capital*, dated 18th November, 1948.

## CHAPTER IV

### *FEARS OF NATIONALISATION AND APPEASEMENT OF CAPITAL AND LABOUR*

SHORTLY after the achievement of Independence there was much loose talk about the socialisation of our economy and nationalisation of industries. It was the fond hope of some that a change in the ownership and control of the essential means of production would bring about the solution of our economic ills. We are often asked in this country to emulate the example of Britain and in the field of nationalisation their example is quoted before us.

Even without entering into the merits and demerits of the question of nationalisation let us see how far the example of Britain's economy is applicable to our conditions.

The British have been the pioneers of industrialisation and for over a century and a half the capitalist machine in Britain has run the nation and taken it to its material zenith in the Victoriage Age and kept it in fair shape even in the recent past. The British have not only the experience of industry and commerce extending over a highly diversified field gained through centuries of industrial development but also a trained labour force with the know-how of latest production techniques. Besides, Britain has perhaps the widest experience in the field of international trade and a large and experienced staff of seasoned administrators.

We, in India, have hardly started scratching the industrial and mineral potential and we have yet to see the birth of such vital nation-building industries—such as big steel, capital goods, heavy machinery, shipbuilding, automobile, aviation, big power, heavy chemicals and modern defence industries in the measure that we need them. Even our great dependence on foreign exchange banks, foreign

eggs. To expect industry and business to submit to these unending post-war rigours in the empty hope of a better morrow and yet expect them to produce more and tighten their belts is nothing short of asking for the moon.

Let us for a moment take the example of Britain and examine the effects that its present taxation policies are exercising over its industrial economy. It is a well-known fact that ever since the war Britain is perhaps the most heavily taxed country in the world. Her industrialists are being made not only to pay very high direct taxation but the incidence of indirect taxation through the levy of very high import duties and the burden of a crushing purchase tax are making the future of industry none too rosy.

Britain's industries today are in need of more modern machinery that alone can in the long run cut down production costs without a comparative diminution in labour standards. Looking at the coal-mining industry we find that Britain's coal-mines are far behind in output per head than those in the United States and even in pre-war Ruhr. It is primarily because there is hardly any margin left for plant modernisation, intensive research and capital formation. We find that even though taxation is high in the United States, it is still not so inordinately crushing as to prevent industry from carrying out the huge projects of expansion and to develop the latest production techniques. It is in fact this ceaseless drive for research and modern methods of labour saving and efficient business management that have brought the American industry to a level where it stands today.

That has only been made possible through a liberal taxation policy which has fostered this pioneering spirit of scientific research and its application to industry and business.

Britain is not able to expand its coal output to the extent that she needs primarily because the coal-mine-owners in the years gone by had apparently no incentive left and that is one of the most potent reasons of the sickness that has characterised this industry. The mine-owners felt that even if large fortunes were to be made they would

be more or less taken away by the State through direct and indirect taxation. For good or ill, under the present economic order the potency of the profit motive has got to be recognised. There is no doubt that the patriotic motive and the motive of social service and responsibility have unleashed latent energies in the history of nations during a period of war, yet the crude fact is that the profit motive cannot be ignored in the existing framework. It is difficult for people to expose themselves to big risks, until and unless there is enough incentive to drive them to such a commercial endeavour. A businessman can only undertake such a big risk of his credit and reputation when he is assured that there is at least an even chance of his coming out successful and making enough from his adventure.

It is this spirit of adventure that a young nation needs. Some might argue that after all India is a very old country with a age long civilisation but in industry she is still very young and immature. If there is no monetary incentive left for such enterprising adventurers we can hardly witness the development that we all ardently wish for.

Looking at Britain's textile industry we find that most of her machinery is quite old and belongs to the pre-1914 years. Again, her production costs are not so low, comparatively speaking. If Britain is able to sell her textiles abroad it is because of the high tariffs against American textiles, the shortage of dollars and to some extent Britain's age-long experience and connections in the world of foreign trade. But, if we compare the *per capita* output we will find that Britain's production compares unfavourably with that of the United States.

This modernisation can only come about if there is liberal allowance for depreciation, scientific research, plant modernisation, building up of reserves and cushions that will make it possible to meet foreign competition and make efficient management possible.

If there is more and more production there will be more and more to go round and share. In the absence of

production, even the most perfectly devised system of income distribution cannot work miracles and usher in the era of plenty. "Without some lightening of the load of direct taxation there is neither scope nor incentive for the investing classes, who are necessarily in the higher income-groups, to furnish funds for new enterprise or to replenish the working capital of existing concerns, particularly as the prospects of future profits have been perceptibly diminished by the introduction of restrictive measures such as dividend limitations and the prospect of more in the form of profit sharing. Governments everywhere are too prone to expect to have it both ways and past experience here and elsewhere suggests that the Government of India will not succeed in squeezing the last pip out of the tax-payer and at the same time sustain him in his role of investor. As Mr. Sampat Iyenger said in his address: "The psychology of the business world is not a mystery as is sometimes stated; it simply runs on human lines." The too simple Gladstonian assumption that all money left in the pocket of the tax-payer will automatically fructify has long since been discarded. But if the country is to have a regular reservoir of savings to draw upon for future social and industrial benefits, some money must be left to some tax-payers and there must be faith in their discretion to use it wisely.<sup>1</sup>

In the context of today's economic circumstances the earning of fortunes in the future is becoming well-nigh impossible. Therefore, if large revenues are expected in the tax field in the future the Government must first try to restore business conditions which will ensure the free flow of investment activity. It will have to be a departure from present policies if the enthusiasm of the investor and the *entrepreneur* has to be brought into foreplay once again.

<sup>1</sup> Quoted from *Capital*, dated 18th November, 1948.

## CHAPTER IV

### *FEARS OF NATIONALISATION AND APPEASEMENT OF CAPITAL AND LABOUR*

SHORTLY after the achievement of Independence there was much loose talk about the socialisation of our economy and nationalisation of industries. It was the fond hope of some that a change in the ownership and control of the essential means of production would bring about the solution of our economic ills. We are often asked in this country to emulate the example of Britain and in the field of nationalisation their example is quoted before us.

Even without entering into the merits and demerits of the question of nationalisation let us see how far the example of Britain's economy is applicable to our conditions.

The British have been the pioneers of industrialisation and for over a century and a half the capitalist machine in Britain has run the nation and taken it to its material zenith in the Victorian Age and kept it in fair shape even in the recent past. The British have not only the experience of industry and commerce extending over a highly diversified field gained through centuries of industrial development but also a trained labour force with the know-how of latest production techniques. Besides, Britain has perhaps the widest experience in the field of international trade and a large and experienced staff of seasoned administrators.

We, in India, have hardly started scratching the industrial and mineral potential and we have yet to see the birth of such vital nation-building industries—such as big steel, capital goods, heavy machinery, shipbuilding, automobile, aviation, big power, heavy chemicals and modern defence industries in the measure that we need them. Even our great dependence on foreign exchange banks, foreign

reinsurance, shipping and overseas commerce is not yet a thing of the past. The few consumer goods industries like cotton textiles, jute fabric, sugar, paper, glass and tea that we see around have grown up and developed under very peculiar circumstances. We have the iron and steel, coal and cement industries but more in a rudimentary stage compared to our needs. These industries have by no means tapped our resources. It need hardly be repeated that the chances of real industrial development were simply non-existent during the long years of foreign rule. Without having given a fair chance to private enterprise is it at all fair to pass judgment on it and to condemn it in the vital fields of our national economy?

To speak, then, of nationalisation in India has very little relevance to conditions obtaining in England or the Continent and some of the zealous left-wing champions who have tried to draw a parallel have failed to see the point. The danger lies in over-simplification. While Britain and the other Western countries of Europe have at least had the good fortune to witness a rapid industrial development under the aegis of private enterprise, in India people are advocating the destruction of the system, even before it has had time to take its birth. One dreads to fully comprehend and visualise the paralysing effects which such half-baked opinions have on the psychology of the people on whom rests the responsibility of making vital administrative decisions.

Under present day conditions nationalisation has very little meaning. The level of taxation has become unconscionably high and it is likely to remain so in the future, and the growing demands of labour are rendering the amassing of fortunes in the future extremely problematical. Moreover, public opinion is becoming so organised and crystallised that it will not tolerate the old social order and relationships to continue. Even without nationalisation capitalism is more on the defensive in the old world and business and industry is today more or less on trial,

The greatest pre-requisite to a successful programme of nationalisation is the existence within an economy of the trained managerial personnel who can man the industries in the real interest of the community. It requires first of all experienced civil servants of a high order whose integrity and administrative skill is beyond doubt. We have today in this country no such machinery even to properly man the public services; leave apart the management, control and direction of the industrial units. After all, a mere change in the form of ownership cannot do the magic. The real basic problem is one of efficient management and organisation.

The record of our State-owned and State-controlled railroad system is too well-known. According to a recent study the efficiency of railway workshops has fallen by at least 50 per cent. Is that any healthy sign? The record of the State-owned railways is by no means better than that of many private industries. Allowance must be made for the serious effects of the Partition on the Railway Staff. But the Partition has also left its scars on the future of private industries who now depend for their raw material supplies from Pakistan. There is not the least doubt that efficiency needs to be increased in railway administration. Sometimes even the railways do not run on schedule. Imagine the plight of a passenger who hardly finds enough room to sit down and relax. The journeys are long and tedious and the arrangements for passengers' comfort on the way are woefully lacking. Its efficiency in matter of freight hardly needs comment and one has only to remember the amount of transport difficulties that are being experienced by the trade. Raw materials and commodities required at the consuming and processing centres have very often to wait so long that the economic machinery comes almost to a standstill. What an amount of capital is lying locked up in goods that people just cannot move from one place to another! We have instances of centres where goods are just rotting and everyone is so anxious to get rid of them

and yet those goods cannot be transported to the areas where they are needed. The prices in the centres where the goods are held have hardly any relation to the prices prevailing in the needy areas.

Let us take the example of our Posts and Telegraphs which is another nationalised industry. One need hardly recall the delay that is experienced in the delivery and transmission of telegrams and the cables and instances can be cited where telegrams have arrived later than letters. While it may be too much to expect here the efficiency that is noticeable in the United States, it may be interesting to recall that it hardly takes one-half to one hour at the utmost for a telegram to be transmitted and delivered from New York to San Francisco which is over 3,000 miles.

It is hoped that the examples of the working of the State-owned railways, posts and telegraphs are by no means a yardstick for the future. From the standpoint of efficiency the nationalised industries do not seem to have a record that holds much of a promise. Even in respect of consumer satisfaction the experience is very disappointing. There is no evidence to show that the comfort and convenience of the consumer is given the top consideration that it merits. It might be argued that our railway rates are very low compared to other countries but if they are judged in relation to the comforts provided they are by no means low. There is no determined effort to provide the facilities that are necessary to win consumer goodwill and satisfaction. The main defence of nationalisation lies in its claim to serve the public at the lowest possible cost. Hundreds of passengers have to stand on the foot-boards. The congestion in the third class compartments is simply terrific. Many a life has been lost in accidents resulting from over-crowding. It is not that people do not care for their life. They have to attend to some urgent piece of work or business. The real fault lies in the shortage of accommodation and absence of proper travel facilities. What good is the Railway surplus in the face of these facts?

In the ultimate analysis it is consumer satisfaction and the ability to provide him with a cheap and efficient service that should be the criterion for determining the pace of nationalisation.

The business community in this country has itself little to spare by way of real and efficient business management, and to alienate them is to cast to the winds whatever lessons and hard-earned experience they have at their disposal which seems hardly wise at this juncture.

The first pronouncement on the subject of nationalisation visualised the Government taking over after a period of 10 years. It now seems that there has been some softening of attitude and the period contemplated is 20 years. But so far no clear-cut policy has been laid down to absolutely clear the atmosphere of misunderstanding and individual interpretations. The other big question is: where is the finance needed to implement this nationalisation programme and to start Government-sponsored projects of development and industrialisation. According to a recent statement of the Congress President the response to the recent Government loan was not very satisfactory. If the Government is unable to find the finance for its short-term needs under present conditions what chance is there for raising hundreds of crores of rupees required for starting new industries and buying up the existing iron and steel, coal and other interests? If money is sought to be raised through the printing press it will only aggravate the inflationary situation and land our economy in a crisis of even greater magnitude. It is the investable savings of a community that alone can provide the finance for such projects and at present there is no such large investable surplus.

If the financial implications of the contemplated nationalisation programmes are beyond the competence of our present resources why should we waste breath over this issue? The only other alternative would be expropriation but this would go contrary to the spirit of our constitution. Finally, it boils down as to whether there may be ex-

propriation and an amendment in the fundamentals of constitution or a perpetuation of the existing set-up. If there were a reservoir of investable surplus the situation could be easier but in order to reach that healthy stage we shall have to get out of the present morass. The slogan of nationalisation at the present juncture will not help us to reach the safe side of the turbulent waters. There has got to be some compromise between practical policies and idealistic pursuits.

Some of the statements on the subject of nationalisation have tended to create an impression in the minds of the business community that their sphere of activity will be considerably restricted—especially in the key industries. This has had a dampening effect on their minds. It may be argued that the services of the *entrepreneurs* could be harnessed under a regime of nationalisation and that the country would not suffer on that score. The fact, however, is that the incentive in the two situations is not exactly the same. Business management implies taking of big risks and at the same time it has the advantage of the close personal element. When administration is divorced from this sense of personal touch the efficiency is not likely to be so high. The stake which a businessman feels in his own enterprise cannot very well be experienced in a nationalised set-up. The incentive factor still remains very important in our present day social organisation. If the services of private enterprise can be had at a reasonable cost to the nation why should the system be scrapped at this stage? In terms of social cost private *entrepreneurs* are not likely to get away with huge profits in future in the face of strict controls over prices and distribution. The present rates of taxation will also act as a powerful check on the possible abuses to which private enterprise has led to in the past. It has been suggested that private enterprise is unsuited in spheres involving monopoly control of essential services. If the alternative was free enterprise as understood in the nineteenth century, nationalisation would undoubtedly

be the best course. In today's circumstances, however, private enterprise has come to be regulated over a wide sphere and does not enjoy the unfettered privileges that it claimed in the past. In the interest of expediency a more practical approach is necessary.

If nationalised industries are administered in the same way that the Government departments are run they will be subject to another drawback which has so far received little attention. In a Government department the factors of seniority and gradual promotion are very significant even at the top levels and the firing of an executive is not so very easy. If these bureaucratic elements are allowed to persist in the administration of vital industrial units the result will be disastrous.

It might be argued that such an approach would be tantamount to the acceptance of a fascist ideology. The facts, however, entirely belie such a misapprehension. In the United States the Roosevelt administration put through a series of measures to control the abuse of the private enterprise system but they never planned for a Fascist economy. It is now widely recognised that planning can go hand in hand with a democratic social order. Even in Great Britain the Government has had to impose such controls.

No doubt there have been statements that the role of the private investor will still have a big field to cover but it looks more of an appeasement gesture. The Government policies and their handling of the labour situation are driving the businessman to the sorry conclusion that the present administration is out to appease labour. More especially the appointment of wage tribunals without reference to the repercussions of increased wage bills on the pockets of the already famished consumer and the disgusted foreign buyer is confirming this belief. The absence of a strict policy to enforce discipline in the ranks of labour and the failure to outlaw sporadic and reckless strikes as well as to mete out exemplary punishment to recalcitrant labour leaders, who have shown utter disregard of either the interests

of labour or of the production need in this country, goes to prove that the current policies do not exhibit the strength designed to tide over the present economic crisis.

The policies of profit-sharing and conciliation have also been in the same direction. There is no disputing that labour plays a very important role in production and should have some voice in its organisation but there can be no rights without duties or shall we say responsibilities. Even in the advanced countries where labour is far more disciplined and conscious of its responsibilities profit-sharing is extremely rare and it has hardly been enforced with the sanction of the Government of the day. Labour representatives must be willing to bear their share of responsibility if they are to be given a share in the running of business. The system of profit-sharing has been introduced in the major industries of this country. No responsibility has, however, been imposed on the labour leaders and spokesmen to maintain and increase the level of production. The labour representatives have not been required to bear their share of responsibility in the management of the enterprise. The decision seems to be more of a gesture than a real policy aimed at bringing about better worker-management relations. Whenever there is any threat of a strike the Government shows its anxiety to concede the labour demands and arrives at some sort of a compromise. So far there has been hardly any attempt to take up the challenge. The situation has deteriorated so much that our transport system is being threatened. Another effect of these labour strikes is to increase the inflationary pressure through loss of production. The industrial disputes are referred to the Arbitration Tribunals and this procedure develops into a vicious circle. Meanwhile no serious attempt is made to raise physical production.

If the matter was left entirely in the hands of private enterprise the issue would be decided by a showdown. Unemployment figures are already on the increase and Government statistics do not give the magnitude of distress

prevailing at present. There is a limit to which labour can force its demands but when it is backed by Government it is emboldened. If the Government wants that management must do everything in their power to fight the crisis they must be willing to impose strict discipline in the ranks of labour. The absence of a strong policy leads to repeated demands and worsens the situation. Labour conciliation is laudable but if it means purchasing peace at any price irrespective of the effect on discipline there can hardly be a real basis for joint and co-operative effort. These policies are making the businessman lukewarm and suspicious.

Labour on the other hand accuses Government of being pro-capitalist. The other day Mr. Jai Prakash Narain, President of the Railwaymen's Federation charged the Government with being a close ally of the capitalist forces and that the just demands of labour were being cast to the winds. Labour leaders are complaining that wages have gone up only 250 per cent. since the war while the cost of living has gone up nearly 400 per cent.; so labour has been given a very raw deal and in terms of real wages its condition has gone worse. Labour representatives are complaining that in the midst of this crisis there is widespread evidence of blackmarket, profiteering and no stern measures have been taken to root out these malpractices. They complain that during the period of decontrol large sums of money were made at the expense of labour.

From what one can infer from these expressions of feelings, it is clear that the present policies of the Government are distrusted by both the sections who contribute to production. It is clear that the present policy seems to be an attempt to pacify all the sections. This seems to be humanly impossible in the long run.

The disastrous consequences of the appeasement policy of the Anglo-American Powers are a pointer in the direction. It was this policy of appeasement in China that emboldened Japan and led to her conquest of Manchuria. In trying to appease Mussolini the world witnessed the rape of Abyssinia.

This very policy brought about Hitler's march on Austria and it saw its culmination in the dismemberment of Czechoslovakia and the signing of the Munich Pact. Yet, all these moves could not put off the evil day for all time to come. The world paid its heavy toll of life and suffering during the grim years of the war and the scars of these wounds have not yet shown any signs of healing. If the present policy of just rolling along, appeasing and pacifying each section continues, the consequences may be disastrous over a long period of time.

## CHAPTER V

### *WHITHER EXPORT TRADE?*

FOR over a century India enjoyed a virtual monopoly in the field of jute and Calcutta remained the world's centre for jute and jute goods. Jute goods formed approximately 50 per cent. of the total exports from Bengal and well over 25 per cent. of India's total exports in normal pre-war years.

Much has happened in the past two years to challenge the traditional beliefs and complacency with regard to this virtual world monopoly.

It took two wars to make a major commercial fibre out of jute. The Crimean War (1854) deprived world markets of hemp. The American Civil War deprived those markets of cotton. Hessian cloth or burlap as it is called in the U. S. A., soon became big business. The first World War made it even bigger business. It reached its peace-time peak in 1928. Then came world depression followed by recovery which almost reached the 1928 peak in 1937.<sup>1</sup>

The chief factors that made the use of hessian cloth widespread abroad was its comparative cheapness, strong packaging quality and its free availability in the world consuming centres. The consumption of burlap had been steadily increasing in North America from about 200 million yards in 1900 to a record figure of nearly 1,000 million yards. It is universally admitted that North America has been India's principal consumer of hessian cloth in the past 50 years and the share of United States offtake amounted to nearly 55 per cent. of our total exports of burlap. The importance of this outlet can be gauged from the fact that India today is desperately short of dollars. We have barely

<sup>1</sup> Quoted from an article by Dr. Virgil Reed in *Annual Burlap and Jute Number*, published from New York.

the necessary hard foreign exchange to cover our food imports alone, leave apart large purchases of capital goods and machinery to carry out our grandiose schemes of economic development.

India was indeed very fortunate in the last 50 years to continually enjoy a favourable balance of trade with United States when most of the European, South American and even other Asiatic countries were having the headaches of balancing their deficit trade balances with U. S. A. since World War I. What does the future look like now?

A recent study of the United States consuming markets shows that there was a steady trend away from burlap. The table below compiled by the Bureau of Agricultural and Industrial Chemistry of the United States Department of Agriculture shows the quantities of cotton fabric, burlap, and shipping sack paper used in bags in the United States from 1939 to 1946 inclusive.

Year			Cotton Fabric	Burlap	Paper
			(Million Yds.)	(Million Yds.)	(1,000 Tons)
1939	...	...	816	712	201
1940	...	...	890	648	195
1941	...	...	927	620	270
1942	...	...	1,183	306	251
1943	...	...	1,283	373	315
1944	...	...	1,052	609	392
1945	...	...	938	826	424
1946	...	...	—	897	550
1947	...	...	—	—	571

The number of commodities shipped in multi-wall paper bags doubled during the war and nearly 400 commodities are being shipped in paper bags today. This search for substitutes has been intensified more and more as the prices of burlap have continued to mount. In the early years the technological improvements in the paper field were not so advanced nor was the price of hessian so prohibitive in the world competitive markets. Burlap's greatest com-

petitive advantage—price—has been lost. Will it ever be regained?

For well over two years the allocation system and the handling of the jute goods quotas exasperated many a buyer. At one time a stage had been reached when every Tom, Dick and Harry was being handed over jute quotas and one could find many such people hawking them in the streets of New York—people who hardly knew what hessian cloth looked like. No doubt exports to hard currency areas have been liberalised in the last few months but the damage has already been done and violence is being currently done to other consumers who are becoming increasingly conscious and will resist attempts of being held to pay ransom prices.

People who have invested millions of dollars in the installation of paper bag plants are not going to sit quiet and allow hessian to recapture lost markets. The history of other world monopolies does not give one the belief that recovery will be so easy.

Indigo at one time enjoyed a place of honour in our economy and what is its condition today? China at one time had a big market in silks. Look at what rayon has done to it. Chilean nitrates which formed the backbone of Chilean economy received their biggest shock when German substitutes almost killed its monopoly.

In the face of all these factors what has been done or is being done to retrieve the situation?

Does the Jute Tribunal's Award recognise the seriousness of the situation? The minimum wage level of the lowest paid manual labourer has been fixed at Rs. 60-2. A scheme for the complete standardisation of the wages of all jute mill workers has been announced. Maximum permissible leave granted is 23 days on full pay and 15 days on half pay and 25 days without pay. In terms of the financial costs it means an addition of nearly Rs. 4½ to 6 crores to the existing production costs. Jute is not a thing that the agriculturist can eat, nor can it be used for clothing

when it is made into fabric. Jute and jute goods are grown and must be exported. Jute is not in any sense an asset of consequence in terms of a closed economy. The fact has to be faced that these goods have either to be exported or the economy and industry that supports it must either wither away or die. The Indian manufacturer has to sell his goods abroad, or not at all. He cannot by any means go on holding the baby for ever. We have, therefore, to examine the additional burden at a time like this in relation to its repercussions on foreign consuming outlets. Looking at the picture from the world competitive angle we find that our production costs in this country had already reached a stage where efficiency was a thing of the dead past. The mills in India employ  $4\frac{1}{2}$  workers per loom whereas in Dundee and on the Continent the average is  $1\frac{1}{2}$  worker per loom. This disparity was not of so much consequence when our labour wages were low, but as the latter have risen without any increase in the physical *per capita* production, the competitive power is being paralysed more and more. Dundee is back to hard work and attempts are being made to revive the industry even in defeated Germany, Belgium, Holland and Czechoslovakia.

There is no doubt that the export duties levied by the Government are a very important item in the cost of jute goods to the foreign buyer. What has been done to remedy the position? It may be argued that they form a substantial part of our badly needed revenue but the question is how far we can go on sacrificing our future prospects in face of small gains in the present? Deprived of these exports India will sink to a relatively insignificant place in the field of world commerce. The duties are only justifiable if they tend not only to keep up existing export levels but also promise expanding outlets for the future. The public relations programme launched by the Indian Jute Mills Association at a cost of Rs. 9 lakhs is not likely to do the trick.

We shall now examine the position of tea—our second largest export item. It is a well-known fact that India is the largest tea producer of the world. Its production of nearly 500 to 600 million lbs., accounts for more than half of the current world tea production which has been estimated at nearly 1,000 million lbs. No doubt the Indonesian production will increase the total world output when normal conditions are restored there.

Prior to the war the big tea auctions used to be held in Mincing Lane, London, where tea merchants made their bids on the produce of the various countries. These auctions had to be abandoned during the war and the British Ministry of Food began to negotiate its bulk purchases principally from India and Ceylon. The importance of the Calcutta tea auctions naturally increased during this period.

After the end of the war and especially last year there was a big move afoot to make Calcutta the World's Tea Centre by holding here auctions similar to that held in pre-war London. The principal tea producing countries besides India—Ceylon, Indonesia, China, Japan, Formosa and East Africa all welcomed the idea. The central geographical position of India and her rightful claim to Asian leadership may have also been a contributing factor. Calcutta had lost its monopoly position in jute after the Partition. Here was a chance for Calcutta to regain the position in the tea world.

What has happened? The whole idea of making Calcutta the world tea centre has been abandoned and cast to the winds on the simple plea that the warehousing facilities for the stocking of tea were not available here. It would be interesting to know what steps were taken to seize this opportunity and to explore the warehousing facilities. It might be argued that the difficulties of construction came in the way. It seems that no difficulty is experienced by those who are constructing cinema premises as one finds dozens of new cinema halls in big cities. Even if construction materials are in short supply what steps

were taken to procure them? After all such opportunities do not come every day. In the circumstances, it seems hard to believe that a real endeavour was made to create the necessary warehousing facilities.

It is now learnt that tea auctions are going to be resumed in London in the near future. It means that the flow of tea trade from countries other than the United Kingdom which had been built up in last few years will again be flowing in the old direction.

Furthermore, the high prices of Indian tea are driving consumers in U. S. A. and Canada to Ceylonese teas and to substitutes like coffee. The advantages of cheap plantation labour are now becoming a thing of the past and the future prospects are none too rosy. The export duty on tea is being much resented abroad and the transit difficulties are only adding to the headaches of the local trade.

Shellac was used mainly in the manufacture of gramophone records in the United States and to some extent in the varnish trade. Records are now being made from plastics and continuous research is popularising synthetic products more and more.

Shellac has also been an important item in our exports and today shellac prices are nearly 10 times that of pre-war. Shellac T. N. was quoted on 24th December, 1948 at Rs. 145 as against pre-war Rs. 14-10-8. ' Buttonlac shellac was quoted on the same day at Rs. 155 compared to pre-war Rs. 17-4. ' Reports of increasing competition from substitutes are arriving and they are a real threat to the future of this commodity at its present dangerously high levels. The competition is mainly coming from plastics and its long-term repercussions will undoubtedly have a serious strain on our economy. Continued research in foreign countries is perfecting the substitutes as time goes on and as the prices of these items continue to stay high.

<sup>1</sup> Quoted from *Commodity Prices in India, Commerce*, page 113, dated 15th January, 1949.

<sup>2</sup> *Ibid*,

In the field of oilseeds the heavy export duties and the vexatious controls and quota system has almost crippled that trade. No doubt there has been a relaxation recently in the controls and lowering of export duty on castorseed but these half-hearted measures have come too late and are far too feeble to restore the equilibrium. The abolition of duty on oilseeds has been neutralised by 15 per cent. rise in prices. Nothing is being done to stop speculation. We have lost and perhaps for good our large overseas markets in groundnuts, linseed and groundnut and linseed oils which had been built up by the patient efforts of decades. The price increases and the failure on the part of Government to really grapple with the issues have closed that outlet of our foreign exchange earnings. The South American countries have seized the opportunity of supplying the world's vegetable oil needs and their comparatively low prices, stability of Government policies and assurance of prompt supplies and transport have brought about the shift. Groundnuts are being grown rapidly in Africa where the British Government has launched a vigorous scheme.

Even in the case of mica the absence of proper grading and quality standardisation are making foreign sales more and more difficult and here again substitutes are capturing the field. Meanwhile, hardly anything is being done here to help matters. Some sort of a policy seems to have been announced with regard to the movement of manganese. It, however, remains to be seen how far the scheme will be actually carried out. In regard to cotton we have become net importers after the Partition.

Do these trends and policies show that a real drive is being made to expand and cultivate long-term export markets? We have seen under what strain and stress Britain has been trying to keep open its export outlets and even though it has almost reached its target of 140 per cent. exports it is still far from becoming complacent. In the face of our limited foreign exchange resources hardly anything is being done to assure large earnings in the years ahead.

## CHAPTER VI

### *RENEWED FEARS OF JAPANESE COMPETITION*

THERE has been considerable evidence of nervousness among textile interests since Japan was admitted into the sterling area. These fears of renewed Japanese competition bring back the memories of the old days when her disastrous competition and dumping were causing headaches to many an industry. This feeling is not only discernible in the mercantile community but is also corroborated by the views of leading exchange bankers who have much the same story to tell. The cotton textile, rayon and art silk interests as well as the woollen trade are also apprehensive. The Japanese production of staple and filament rayon in 1948 has been estimated at 27,000 tons as against an output of only 12,000 tons in 1947. While the current production figures are well below pre-war the sharp increase is clearly perceptible and further large increases are in the offing. Under a new plan which envisages the rehabilitation of Japanese industry, her woollen exports are expected to be stepped up to 38 million lbs. valued at 88 million dollars.

Not long ago India aspired to fill the industrial vacuum that had been created by the defeat of Japan and the sentiment was often voiced that India should seize the opportunity which Japan had been able to capitalise upon in World War I. Yet, today when Japan lies defeated and prostrate it is strange that these fears should be harboured. They could have had some sort of justification when our politico-economic framework was controlled and dominated by an alien administration. In a free India the existence of such fears is indeed an interesting commentary on present-day conditions.

The real vantage point which enabled the Japanese to compete so favourably and to under-sell practically every other country in the world in the pre-war times lay not in the generally accepted notion of cheap and exploited labour. No doubt labour was cheap in Japan when compared to the West and many a Japanese girl had to work in order to earn the money needed for her marriage but this phenomena did not explain the whole position. There were other Asiatic countries where real wages were even lower than in Japan for similar occupations, yet Japanese products sold in these countries in spite of high tariff walls. While British textiles had to pay only 15 per cent. *ad valorem* duties similar Japanese goods paid as much as 60 per cent. and even more and yet they sold fairly heavy. In the Dutch East Indies the Japanese paid much higher duties than goods manufactured in Netherlands and yet Japan had such a tremendous market in the East Indies and the countries of South-East Asia including India. Even the cheap labour of the Orient, especially in over-populated China and India, was not able to withstand Japanese competition.

Japan used to buy her raw cotton from India, the United States, Brazil and Egypt and paid the same prices for raw materials that were paid by the Indian and American mills in their respective cotton markets and she had also to pay ocean freight, insurance, shipping charges which have not to be borne by a domestic manufacturer. Besides, there was also the expense of paying the ocean freight to the importing point, high import duties, etc.

Where did the real competitive advantage then lie, if not merely in cheap, exploited and regimented labour? The answer is that it lay mainly in the fact that Japanese economy had a very peculiar organisation and a pattern that was typically exclusive.

Most of Japan's economy was controlled and organised by the three great business families of Mitsui, Mitshu-Bishi and Yashuda. These large families had been more or less sedentary merchants in the medieval days. By sedentary

merchant, I connote that these houses, though largely proprietary, combined in themselves many heterogeneous functions and also worked as bankers and finance houses. The family of Mitsui goes back to the thirteenth century and in the course of the centuries it came to enjoy so much economic power that the House of Mitsui in its hey-day was considered the largest trading concern of the world.<sup>1</sup> The House of Mitsui were not only bankers to the Imperial Household and the Japanese Government but they had the largest integration of economic functions that any business house has witnessed in the world of commerce and industry. Mitsui bought the raw materials in India, or the Southern States of the U. S. A., Sao Paulo, Sudan and shipped it in its own vessels to Japan. It was insured in Mitsui's own insurance group and financed by his own bank. Mitsui had processing factories where the raw materials were turned into finished products. Mitsui also had extensive mining interests and perhaps the biggest foreign trade department having its branches spread in every nook and corner of the world. A single transaction was not allowed to pass through other channels—so closely knit was the economic organisation and the goods invariably reached the consuming centre through Mitsui's own departments and it gives a clear idea of the complex chain of functions which Mitsui performed. Very much the same may be said of Mitshu-Bishi and these two houses were the largest in Asia if not the world. No doubt in integration of functions, they surpassed even the biggest combines such as Unilever, I. G. Farben, Siemens, Du Pont and others of the West.

It was this vast integration of functions that really kept Japan in the competitive world. Besides, these large families had very close alliance with the Imperial Household and had much say in the shaping of her foreign and military policy. It was this combination that really explains the miracle of cheap Japanese selling in pre-war times. It

<sup>1</sup> Quoted from *Fortune Magazine*, January, 1931.

would also be interesting to recall that Japan at that time held sway over Manchuria, Korea, Formosa, the Channel Islands and had also under her occupation sizable parts of China. Through her military supremacy she was able to purchase cheap raw materials from these areas and could find an outlet for some of her exported items at least through political and economic pressure.

Let us examine the position of Japanese economy today. Does she really enjoy the competitive advantages that she had in the past and are the fears of renewed competition only a surface factor or really deep-seated ?

Japan today lies prostrate. She has not only been driven away from the occupied parts of China but has also lost her erstwhile dependencies of Manchuria, Korea, Formosa and the Channel Islands. Her dependence on foreign imports of food and raw materials has become much greater in the face of a continually rising population which is now over 90 million. The pressure of population was already in evidence and in the face of these it is becoming well-nigh formidable. The American occupation forces have almost annihilated the old order and more especially the big Japanese families that once dominated her vast superstructure. The policy of decartelisation has dealt a severe blow to the great integration of functions that some of her industrial units were envied for. It is hard and almost incredible to believe in the face of these changes, that she would be able to compete on the same old basis.

The only factor emerging somewhat on the credit side of the balance is the strategic position of Japan as a bastion against Russian Communism in the Far East and its strong and formidable naval base. Some effort is no doubt being made to revive her economy so that she might be more and more able to pay for the cost of occupation forces. There is, however, not the slightest doubt that the Anglo-American powers cannot visualise Japan regaining her former position in trade and industry as that would mean so much economic loss and chaos to the West and even to the other Asiatic

countries that it would seem that the war against Japan had been prosecuted in vain.

Furthermore, the American Occupation Forces are not going to tolerate the old, regimented order under which some labour exploitation was possible. The increasing labour consciousness in the world has today changed the position and Japan cannot cut herself adrift or remain in perpetual isolation. The growing labour movement had begun since the early days of World War I. The Second World War and more especially the Russian successes have made the labour front in every country very strong. Japanese labour cannot, therefore, be expected under present world conditions to agree to work under sub-human conditions which characterised the depression economy of the world in the 'thirties.

In the light of the foregoing the fears of renewed Japanese competition reveal a new fear psychology and fear-complex that seems to be gripping the business community in this country. If anything, it means that the Indian business world is so much enmeshed with a fear psychology that it does not seem to have faith—even an iota of faith—in the tariff walls, import controls, monetary ceilings, embargoes and other protective measures necessary to guard against unhealthy dumping. Such is the feeling in Free India! Does it show any cheerful sign about the prospects of our future economy based on present trends? What has the Government done to counteract this feeling which is becoming more and more widespread?

A few months ago the Government announced its policy of complete liberalisation of imports and enunciated the policy of open general license. What have been its effects? According to exchange banks and a survey of markets it is clear that godowns are full of goods and they cannot be easily emptied. These imports were said to be a very powerful instrument in fighting the bogey of inflation. According to some industrialists they are already playing havoc with some of the old and organised industries and

if that is the way things will move—many an industrial enterprise may have to close its shutters. It means so much dissipation of our valuable foreign exchange and import of many an unnecessary article, the demoralisation of markets and creating a feeling of helplessness and resignation and loss of faith in the country's economic policies.

It does not mean that we should follow a closed economy on strictly protectionist basis and not let foreign goods penetrate our consumer walls. But, if a healthy growth of industry is desired there must be a faith and shall we say—a *living* faith in the country's tariff and import policies which will inspire confidence and lay the basis for a sound and well co-ordinated economic development in the future. A mere expression of feelings will not help. It is the absence of any concrete expression that is playing havoc today and making our economic situation day by day so explosive.

## CHAPTER VII

### ROLE OF FOREIGN CAPITAL

CAPITAL in India has been proverbially shy. In the early years of the establishment of plantation, mining and jute industries most of the capital as well as the managerial talent came from the British community. Later, the American Civil War helped the amassing of fortunes in the cotton trade and Western India gave the leads in the development of the cotton textile industry in Bombay and Ahmedabad.

The whole task of pioneering, promoting, financing and managing the mills fell on the shoulders of a few merchants, and although with a view to getting a certain amount of additional capital they were prepared to take in some from outside, they always took care that control remained in their own hands.<sup>1</sup>

Investors who had any money to invest in industries were willing to put their money in any enterprise promoted or backed by a reputable firm of managing agents. The imprimatur of a managing agent was found essential for the successful flotation of any public company in India. Even at a time of depression, as in 1931-32, when capital was justifiably shy, many new sugar companies were successfully floated by managing agents because of the confidence of the public in the promoters. In short, managing agents became the pivot of the whole industrial system.<sup>2</sup>

Even in the boom years of 1943-46 when this country witnessed the largest flotations of new companies, many of them were sponsored under the aegis of managing agents

<sup>1</sup> Quoted from *Industrial Organisation in India*, by Dr. P. S. Lokanathan, page 23.

<sup>2</sup> *Ibid.*

and it clearly reflects their predominance till this day in our industrial organisation.

This shyness of capital has been greatly accentuated by the absence of industrial banks and finance underwriting houses which accelerated the development of industries in Germany as well as in the United States. In India, there has remained a pre-dominance of commercial banking, who specialise in short-term loans and foreign exchange. The banks in India are a prototype of the English banks, though in the field of foreign exchange the share of Indian banks is still almost negligible.

Immediately after the cessation of hostilities and the prospects of the transfer of political power there was a feeling that foreign capital investments in this country should be largely taken over by our nationals and that in future foreign capital should be allowed to come in only under certain basic safeguards. This attitude which was so prevalent naturally created a feeling of nervousness and distrust.

The Reserve Bank of India recently issued a notification about the census of foreign holdings and investments in this country. This information is most vital for the planners of our economic policy and to realistically appraise our international balance of payments position. There is also historical evidence of this procedure even in the comparatively free economy of the United States, certain South American and European countries. India has been proverbially known for the lack of vital and up-to-date statistics. In fact, no real scheme of economic planning is possible without having in hand the vital statistics. It is hoped that this vacuum in our economy will be remedied before long though it might yet take some time before the results of the enquiry will be publicly made known.

There has been no precise estimate about the extent and amount of foreign holdings in this country and whatever figures have been put forward are more or less in a region of speculative thought and guess-work. The proprietary character of many a concern and the general conservative

and secretive business practices have only added to the difficulties of an analyst.

The Reserve Bank's move shows that this information is being compiled for statistical purposes and in view of India's engagements with the International Monetary Fund. But the failure to clarify the policy and attitude towards foreign capital from the beginning has had some unfortunate effects on our economy.

Ever since this notification, there has been a continuous pressure of selling in the Calcutta Stock Market. There has been a good deal of selling pressure in industrial and bank shares and a stream of "stop-loss" orders have been reaching Calcutta from London. Evidence of this is clearly reflected in the sharp fall of Imperial Bank shares which have taken a dip of several hundred rupees lately. On 22nd September, 1948 the Imperial Bank share was quoted at Rs. 1,925 and the same was selling on 8th January, 1949 at Rs. 1,787-8. The selling wave has not been confined to this sector alone but has been fairly widespread. Yet, the fact stands out that the nervous liquidation of these equities has only accentuated the rot and demoralisation that has characterised the Indian financial world of late. These signs all portend that some of these overseas investors have been liquidating their holdings in the Indian Union.

It would be interesting to recall in this connection that the price of raw jute almost doubled when the Partition scheme was announced on 3rd June, 1947. The raw jute index stood at 435 in May 1947 and in the very next month it shot up to 833 and in July it touched 1,074 and was 907 as late as October, 1947.<sup>1</sup> Throughout 1948 the raw jute prices have been skyrocketing. Lakhs of bales purchased by jute mills situated in the Indian Union have not yet arrived in Calcutta area. Partly this may be due to the transport bottleneck but that seems to be only a partial explanation when reports are being constantly received

<sup>1</sup> Quoted from the All-India Index Number of Commodity Prices.

that increasing quantities of raw jute are being shipped overseas. It would be interesting to investigate if there has been a substantial transfer of funds from this country to Pakistan through these measures. May be, some of these foreign investors feel more at home in an undeveloped and largely agrarian economy of Pakistan. Reports from Karachi show that the number of United Kingdom residents has increased several times from what it was in May 1947. Every important foreign exchange bank has established itself in Chittagong and feverish activity is about to put that economy on its feet.

There was, apparently, no shortage of liquid capital during the boom years of the war as there always remained a plethora of funds and large lendable surpluses with the banks. In the light of today's conditions the serious repercussions that would devolve upon our economic mechanism if on top of all the other troubles, the existing amount of foreign capital was either withdrawn or liquidated. The danger is too apparent in an economy where the margin of sufficiency is already at a low ebb. In this context, it may be pointed out, that many banks and more especially the foreign banks are now very anxiously building up a very liquid position, and there is increasing emphasis on meeting the short-term trade needs out of margin moneys obtained from *bazar* operators and loans from the Reserve Bank. All this means that the financial burdens under which this country is already labouring, will not be lightened up, but the period of readjustment will be quite long and painful, to say the least.

It is no doubt true that sales of our export products are usually made to foreign buyers months in advance except in present circumstances when the prevailing high prices and the vexations delays in export quotas are forcing foreign buyers to buy on a hand to mouth basis.

If one compares the high prices of our export products prevailing in the latter part of 1947 and even in 1948 and the total amount of foreign exchange earned in this period

it looks as if the goods were shipped at below market prices. No doubt a certain amount of such cheap shipments may be due to contractual obligations entered into earlier when markets were not so high but the fact that foreign consumers have been pursuing a very conservative policy in building up stocks shows that there may have been some loophole for transfer of funds abroad. There is a feeling in certain sections that our total export figures do not adequately represent the amount of export value and even in imports there may have been chances of over-invoicing from abroad, and indirectly it means a sort of capital transfer. At a time when this country needs every ounce of available liquid capital and foreign exchange it would be interesting to know what steps were taken to safeguard these interests.

Recently Government spokesmen have held out some sort of a hope that foreign capital is to be invited here as Indian capital has been accused of having gone on strike and more or less underground. There is no denying that adventure capital has not been very plentiful here in the past. The fact nevertheless, remains that in the last two years the Indian investor has lost nearly a thousand crores of rupees through the precipitous fall in share and stock values. Trade funds have become so immobilised owing to Government controls and transport bottleneck and the cash money market is so tight that to expect capital to come forth in these conditions shows hardly a correct appreciation of the investor's attitude and psychology. Capital mainly comes through savings and in India it has largely been drawn from the small investment class. Unfortunately, the large agricultural section of our populace has long been accustomed to invest whatever little savings they have in bullion hoards.

Middle classes constitute an important investment section in other countries but here the lack of a business mentality in some and the crushing burden of high prices and continued scarcities have told heavily on the rate of savings. In the case of the very high income groups the

position on the whole has deteriorated and the reservoir of savings has been more or less dried up. Lack of future confidence and uncertain business prospects have been the other most deterrent factors for this state of affairs. In the context of these conditions is it fair to accuse Indian capital of having gone underground ?

If Indian capital is not forthcoming to efficiently man the existing units and to start new enterprises can it be expected that foreign capital will come forward ? A foreigner always feels that he has much more at stake than a national or a local *entrepreneur*. First of all, the foreign investor has to be assured of political stability and a certain continuity in Government policies and he would also demand an unequivocal guarantee that there would be no expropriation of his assets in at least the next 20 years or so and possibly he needs also an assurance that there would be no nationalisation.

At present Britain is in no position to bring here large amounts of investable capital. Her financial position has so changed in the last 10 years that she will continue to liquidate rather than increase her foreign holdings for years to come. The Netherlands was the other big international centre of finance before the war. The Dutch are by no means in a position to invest as they themselves have a very hard task to perform before they can reach the goal to economic stability. France has been financially crippled. The only country that can be expected to bring forth investable capital is the United States.

The business leaders and even the foreign service officials of the U. S. A. give the impression that American capital is at present following a policy of wait and see. Under the present economic conditions they are not finding it very tempting to make large investments here. Moreover, the American investor wants the assurance that he should be able to remit the earnings on his investable capital in dollars and at the time of eventual liquidation he would like to be reimbursed in hard foreign exchange. The question is that

India is desperately short of dollars already and is running an adverse balance of trade with the hard currency countries. Even with the amounts released under the sterling agreement for convertibility and withdrawals from the world bank it is not easy to balance the trade deficit. Is it then possible that we would be in a position to withstand further drains on our slender resources ? The only source of earning dollars is increasing exports to U. S. A. and we have already seen that our exports to that country are falling each month with no hope of a substantial rise in the future. The United States has been for long the champion of a protectionist economy and most of her industries have been built up through sky-high tariff walls which are not easy to penetrate for many a foreign product. Are we in a position and prepared to break through this vicious circle ? If the past is any pointer in the direction it will not be a very easy task and mere platitudinous statements will not materially change the situation.

## CHAPTER VIII

### *ADMINISTRATIVE INEXPERIENCE AND CORRUPTION*

IN the final analysis, it is not merely a few top leaders and their selfless sacrifices and spirit of lofty idealism that can work the day to day administrative machinery. Influence of leaders no doubt counts but equally important—and perhaps more so—is the sense of moral and administrative responsibility in the rank and file.

Some of India's national leaders have the finest records of political self-sacrifice, judged by any standards of integrity and patriotism. In fact, the moral fibre of some of these leaders has been singly responsible for keeping the lofty standards of our old culture alive. India has always been an exporter and a rich exporter of culture, knowledge, philosophy and above all the spirit of human religion since the days gone by. She has never figured as an exporter of arms, of destructive weapons that are used to kill one another, nor has she spread the gospel of acquisitive impulses, aggression or colonial pursuits. It is this moral force which has been the essence of our philosophy, and it is this force, more than anything else that has attracted the imagination and admiration of the rest of the world.

In no other country of the world, was a political struggle launched and waged on the basis of soul-force or of self-suffering. India gave full expression of her innate culture, philosophy and message of goodwill in the lives of the great Mahatma in the modern century and of Gautama Buddha, 2,500 years ago. Gandhiji's great struggle and his insistence that moral principles be followed in the field of politics, has been something that was a new development in world affairs.

The Congress Party during the years of our national struggle for liberation, followed this policy in its spirit. What is the position today ?

The Congress President himself ruefully remarked that the achievement of Independence has been followed by the appearance of parties or factions among Congressmen themselves and that on matters, small and big, rival groups approach Government Ministers and other public officials and cause embarrassment to them by making conflicting recommendations. As a result we find "Schisms in the administration itself, even on such trivial matters as permission to erect a cinema, licenses for business and so on."

Typical instances have been cited where due to interference of Congressmen even the judiciary has been hampered in the discharge of its duties and more than one High Court has made strictures on Congressmen, including legislators who have sought, in the interests of their friends, to interfere with the course of justice and even in the sphere of criminal cases. Hon'ble Chief Justice Sir C. M. Agarwala of the Patna High Court has drawn attention to this fact on several occasions and pointed out the need for an independent and impartial judiciary. Further evidence of this can be had from the Congress Resolution on the public conduct of Congressmen which was moved at the recent Jaipur Session.

There is no denial that the war brought about a certain amount of demoralisation and corruption in the public services. The continued prevalence of this disease is partly a legacy of the war and the continued abnormal living conditions which have characterised the last three years of the so-called peace.

The civil services formed the steel-frame of the British administration in this country and it was this nucleus of bureaucrats that kept the machinery going. It was only natural that the British withdrawal from the political scene would be attended by an exit of the European elements,

Out of nearly a 1,000 civil servants in the I.C.S. about one-half were Europeans and there was also a certain number who had pro-Pakistani leanings and they transferred their allegiance to Pakistan after the Partition. There was also a substantial percentage of these elements in the police services, armed forces, forest service, engineering and other All-India Public Services and this vacuum was bound to arise after the transfer of political power.

The reorganisation and expansion of our civil services was absolutely necessary to fill the gap. No doubt an attempt was made to lay the foundations of the new Administrative services and to evolve a suitable administrative network but the experience so far hardly shows that the level of efficiency and administrative skill necessary has been forthcoming. Even Sardar Patel remarked some time back that the standard of efficiency left much to be desired and the widespread prevalence of inordinate delays, redtape and the extent of corruption confirm this state of affairs.

During the British *raj* the Indian Civil Service undoubtedly enjoyed privileges that were incomparable even in the context of Foreign Civil Services and sometimes the Civil Service was humorously referred to as the "Heaven-born" service with a special code of ethics and behaviour and almost complete exclusiveness.

A very curious development took place. No competitive examination was held for the Indian Administrative Services. Candidates were only called for a few minutes' interview and the selection was made by the touring committee. Could a candidate for such a responsible post be expected to get a fair deal in the present set-up? There was no objective test to determine the ability of the administrator. No actual case was put forward for administrative solution. In advanced countries typical situations are presented in the form of a mimeographed case sheets and the student is expected to analyse the situation thoroughly and to suggest a solution. The solution must take into account the

possible alternative courses of action and should be related to the diagnosis. It is only a practical approach of this type that can raise the administrative standards. It is very well to compare the present Administrative Service to the former Indian Civil Service but the question is whether in efficiency and calibre of personnel it is anywhere near its former prototype. The Indian Civil Service officers generally started on 450 rupees a month with the prospect of a steady increase in salary and allowances. In those days the buying power of the rupee was four times what it is today. Can we reasonably expect that calibre of experienced administrators at the present levels of salary?—even an efficient stenographer in many an office draws Rs. 350 and some of the best paid stenographers get as much as Rs. 500 to Rs. 700.

To expect the cream of the nation's youth to work on such low salaries is to blind ourselves to the realities of the situation. A person with any guts and drive is likely to do better in other fields and this will drive away some of the best brains from our public services in the future. It is true that India is no longer a police state and that kind of bureaucratic prestige and position is no longer necessary. But really seasoned administrators will not be attracted if they are unable to eke out an honourable existence. If they do give in, the temptation to be corrupt will be there in an increasing measure or there will be inefficiency. In the absence of a fair living wage we cannot expect our executives to do their bit.

In the transition period the need for administrators is great and the authorities would do well to formulate a realistic policy and to reintroduce the competitive examinations without which selections will be more of a farce.<sup>1</sup> The weakness of human nature has got to be realised and if a very high standard of administrative working is desired a fair and decent living wage will have to be paid and it will

<sup>1</sup> Since this was written information has been received that competitions will hereafter be held to recruit to the various cadres of the country's public services.

have to be in relation to the prevailing price levels. It is very good to talk of economy and of the poverty of this country but there seems to be much more of an attachment to form rather than to the spirit. Failure to realise this is leading to small economies purchased at a tremendous sacrifice of efficiency, experience and skill.

When the war was nearing its end the Government had enunciated very ambitious schemes for the training of technical personnel in countries like United Kingdom and the United States. Large batches of Indian students were selected by the Government and they went to these countries to receive their training in various technical fields such as engineering and agriculture. In this connection, it may be recalled, that the war stood in the way of many an Indian student who was unable to prosecute studies abroad, owing to the prevalence of belligerent conditions in those areas. There was thus a large number of students who had been patiently waiting to go for studies abroad, for several years. At the time when the Government embarked on its training scheme, high hopes were held out that these trainees, after completing their courses and fieldwork in foreign countries, would be absorbed by the Government. Great schemes of post-war reconstruction, rehabilitation and grandiose plans of India's agricultural and industrial development were in the offing.

When most of the students, sponsored by the Government, completed their training, they found to their dismay and disappointment, that they had to fend for themselves and the schemes about the doubling and trebling of the national income, had become nothing but an empty dream.

How does this situation arise when so many foreign trained students of the soil are required to fill the vacuum created by the exit of foreign personnel and technicians? In the face of ever-increasing sphere of governmental activity this is particularly hard to comprehend. No doubt these Government trainees need some more actual experience but the right way would not be to let their energies go

waste but to give them an opportunity to utilise their talents profitably in the service of the country. It is very distressing to read from the speech of our Industries Minister Hon. Dr. Shyama Prasad Mookerjee about the plight of these foreign trained personnel. At no other time was the need for such technicians so great as at present and especially when a popular Government is wedded to a policy of rapid economic development and complains about the bottleneck in trained personnel and technical experts.

If these people cannot be absorbed in the present conditions when the shortage of administrative and technical skill is so serious it reflects rather unhappily on the manner things are being handled.

Hon. Dr. Shyama Prasad Mookerjee called upon the industry to absorb them. The question is that industry is already in a state of paralysis and is faced with a dubious future. After all, these students sponsored by the Government naturally look to them and if the Government itself will not care to utilise them one wonders how private enterprise under the present transition crisis can hold the baby.

It is hard to understand, in the first instance, why the Government Exchequer sponsored so many students to go abroad when there was no provision to absorb them on their return. All that one can infer, is that the whole scheme was not properly visualised nor carried out in a proper spirit. It has resulted in a callous waste of public money and human resources. It must have naturally brought despair, disappointment and a sense of despondency among those who have been its victims. Many of these young men and women have spent several impressionable years of their life in foreign lands, under conditions which were none too rosy for most. Now to let their knowledge and experience go to rot is hardly doing any justice and such a precedent is none too encouraging for future generations of this country. Such a policy will act as a great deterrent unless amends are made and decisive measures are taken for the optimum

use of the nation's resources not only in the material but also in the human field.

Another factor that has been responsible for the lack of seasoned administrators is the fact that the spirit of party feeling has been quite noticeable and those that remained out of the Congress fold are often left out of the picture. There is not the slightest doubt that the Congress underwent a tremendous amount of suffering during the course of our national struggle. But now that Freedom has been attained there is no difference in the objective or its method. If the nation has to be organised and run on healthy lines, there has got to be a pooling of the nation's best resources irrespective of party affiliations, and merit more than anything else will have to be the criterion. There is no denying that the base will have to be widened much more than it has been so far.

The present tendency of attaching more importance to the form rather than the spirit is exhibited by the present prohibition policy being pursued in the Provinces. Alcoholic drinks exercise a bad influence on health if they are taken regularly in excess. There is medical support for that but it is something that is more of an individual matter than one of governmental regulation. The fact is that those who are more or less determined to have a drink will not just stop merely because there is prohibition. In Bombay there are three dry days in a week and in Calcutta, Saturday is a dry day. The week-end is usually the period when people go for a certain amount of relaxation, merry-making or away from the daily routine of hard work. They naturally seek some diversion. Does the existence of prohibition really deter them from seeking a drink? The fact is that those who have to drink usually buy the bottle a day or two in advance either singly or in a group and take it in their rooms as it cannot be served in public places. Human conduct in such matters is very hard to regulate and no amount of governmental strictness or legislation can change the situation,

The failure of Prohibition in the United States is in itself a pointer. The introduction of prohibition led to so much boot-legging, smuggling across the frontiers and all sorts of nefarious practices that it gave rise to large gangs, who became specialists in violating the laws. The result was disastrous and instead of helping to improve the moral standards of the people it injected in them a feeling of the opposite kind and many a law-abiding citizen was forced to seek a drink in the underworld.

The habit of drink is a matter of the private life of an individual and must be left to his good sense. A real remedy or counter-dose to enforced prohibition is more and more education to make the people themselves conscious of its virtue. The labourer in this country suffers from the habit of drink and more especially country-made spirits such as "toddy." He is forced to seek such an outlet as his whole way of life is so drab and disgusting. Prohibition has hardly changed his position and in spite of the restrictions he continues to enjoy the drink, may be in an illicit manner. Moreover, if prohibition is designed mainly to curb this evil among the labour why should it be enforced in public entertainment places where the labourer has no excess anyhow, owing to the short length of his pocket and his existing pecuniary conditions.

Such idealistic schemes mean a heavy drain on the Exchequer. It means so much loss of revenue at a time when every penny is required for national reconstruction. The finances of the Provinces are being burdened each day with new taxes and the West Bengal Government only the other day foreshadowed the extension of the Sales Tax on 16 more articles of daily use like mustard oil, newspapers, matches, etc., which are indispensable to middle class families. If on top of these levies the tax-payer is called upon to bear the burden of such schemes it seems to be going too far in burdening him with a very heavy load under which he is already groaning for several years.

## CHAPTER IX

### *THE DANGER OF PROVINCIALISM*

THE fissiparous tendencies that have expressed themselves in the guise and cloak of provincialism and regional autonomy, have also been responsible quite substantially for the present stalemate.

No doubt, the vast sub-continent of India comprises regions that have differences of language, custom and tradition, etc. The carving out of provinces by the British was not based on any linguistic or cultural background. The territorial units which were grouped as provinces were based more on administrative convenience than on anything else. Thus, in South India there is only one province, viz., Madras Presidency and more than four languages: Tamil, Telugu, Malayalam, Canarese and Tulu. Even in Bombay Presidency there is a conglomeration of Marathi and Gujerati languages with some influence of Hindi in recent years. The administrative units in the North of India have more homogeneity in matter of language, local customs, etc. than we find in the South or the Western part of India. In the north there is of course a mixed influence of Hindi and Urdu and there has also been a considerable fusion of cultures. These differences, however, do not mean that these regions are not interwoven into one single whole by long ties of a common culture, deep philosophy, common history, close economic and social interdependence.

India's history, even when one gleans it from times immemorial has always presented this panorama of unity in diversity. That has always been India's chief source of strength and also India's prime cause of fall. When India was one, with all its diversity in the age of Asoka, India's message of life and goodwill, peace and human brotherhood,

spread throughout the length and breadth of Asia. India did not undertake physical, military or economic conquest. That is, where her message stood out with a singleness that has not been seen by any empire whether Greek, Roman or in modern times—the British. Yet, when India was torn by regional politics, provincial jealousies as in the time of chivalrous Prithviraj she succumbed to the onslaught of the Moslem invaders. It was this lack of cohesion and the absence of a strong central administration after the Moghuls that brought to the fore the separatist tendencies, mutual jealousies and a sense of local allegiance. When the British came to this country originally as merchants they saw the political disintegration that was characteristic of the times and were able to spread their tentacles very soon. Had it not been for this jealousy and regionalism, perhaps the entire course of Indian history may have been different.

If there was any contribution of the British *raj* it seemed to lie in the fact that India had been treated as one administrative entity and it had created a growing consciousness of nationalism. Later on, however, when the British sensed the growing power of the nationalist forces they brought into increasing play separatist tendencies which ultimately found expression in the Partition demand. It was during the course of India's national movement for liberation, that her leaders very often voiced the injustice of perpetuating the provincial administrative units once the tyranny of foreign yoke had been ended. At that time, however, very few, if any, had any knowledge or idea about the Partition of India and the problems that it would bring in its train from its very inception. The demand for provincial autonomy, regional and cultural unity, has, no doubt, much that is worthy of merit in it. Yet, the question is, how far it is opportune and practicable during the great transition of cataclysmic changes that we are now passing through.

This demand for provincialism has been most noticeable in Bengal, in Bombay among the Maharashtrians and even in Karnatak and other parts of South India. In Bengal most

of the pioneering, business and industrial activity was done in the beginning by the Europeans. The Scotch people from Dundee were the pioneers of the jute industry in Bengal and even in other industries the Bengalees played only a minor role. The biggest single contributor to the industrialisation in Bengal was Sir R. N. Mookerjee who established the Indian Iron and Bengal Steel Corporation. In the inter-war years and more especially in the depression and boom years the Marwari element has become very strong in the industrial and commercial life of Calcutta and is also quite active in the field of foreign and domestic trade. In Bombay, the pioneering activity in the field of industry and commerce was initiated by the merchant community of Parsis and later the people from Gujerat helped very much to make Bombay the industrial hub which it is today. Other communities in these two provinces have no doubt played a part in the commercial and *entrepreneurial* fields but it is clear that the growing provincial feeling in these two centres—which form the backbone of India's industry, commerce and foreign trade—is creating a feeling of increasing uneasiness among the other elements and stifling industrial enterprise. It appears that the protagonists of provincialism have overlooked the fundamentals of past Indian history and have refused to open their minds to the critical and delicate nature of present times.

Economically, planning can only succeed if the country as a whole, is treated as a single economic unit. Planning requires a great deal of central control and direction. It necessitates overall co-ordination to a master plan. The various development projects are related to a common goal. There is of course a great deal of regional decentralisation but it is never allowed to subserve the overall national interests. That at least seems to be a price which a country desiring optimum economic development has to pay. Let us take the example of the United States.

During the first 60 years of its independence, the United States witnessed hardly much economic and industrial

development. In the beginning it remained largely an agricultural country—more especially devoted to cotton and tobacco plantations. There was no doubt a beginning of industry in New England, where the early settlers made their first homes but the tempo of industrialisation remained comparatively very slow. United States had been able to develop substantial commerce yet she had not experienced the days of technological supremacy. It was only after the successful termination of the long American Civil War in the eighteen' sixties and the formation of a strong and stable Government at the centre which paved the way for real industrial development. The last 90 years of United States economic history tell the story of the most stupendous development that human history has seen. No wonder what that young nation has achieved in the material field is the envy of any country.

This change from a largely agrarian economy to the world's most developed industrial centre has come about through more and more central direction, control and planning. This era has witnessed the extension of the sphere of the Federal Government in many walks of American life. It is interesting to recall that during all this period, the 48 States have continued to maintain their individuality and have stuck hard to their fundamental rights, yet, in the larger domain, where popular economic and national interests are involved, they have always co-operated with the Federal Government. This is because the Americans first developed a strong national consciousness and sentiment.

In pre-war Germany also economic planning meant a tremendous increase in the Central Government's economic controls. The Germans no doubt stressed efficiency, which has been their legacy from their militarism and cartellised industrial organisation. The various five-year plans of Russia also saw the extension of the Central Soviet authority in many economic matters and it seems an inescapable

conclusion that successful planning requires strong and efficient central direction.

The violence that the prevalence of a narrow provincial mentality can do to a nation, may sometimes be not easy to appreciate, but their power to do untold harm and mischief none-the-less remains very potent.

In the case of Assam, the position will become very grave and might become untenable—if the present provincial mentality takes root in the minds of the people. For one thing, Assam is separated from the rest of India by Eastern Pakistan at least for most of the part, except for a small hilly region that connects it around Darjeeling. Progress is being made to connect a rail link but it will be another year or two before that project is really completed and comes into operation. Assam is a poorly developed province—most of her economy depends upon the tea plantations and it has been in the past a deficit province and still continues to be so economically. Its strategic position as a bastion of India's frontier post, has also to be remembered in this connection. How vulnerable the position can become can best be imagined when on one side you have Burma in the throes of a Communist insurrection, and on the other side it is flanked by Eastern Pakistan. The collapse of China must also have serious long-term repercussions on our eastern land and sea frontiers, and the unsettled politico-economic conditions in Indo-China, Malaya and other South-East Asian countries place on us a very heavy burden of responsibility for maintaining these areas under proper control. Unfortunately, the original composition of Assam is also far from being compact. Therefore its position is all the more worthy of attention and serious concern. Unless and until the Central Government do not exercise its powers, these narrow separatist tendencies will tend to wreck the political and economic future of this great country.

One of the reasons responsible for this demand of linguistic provinces is the lop-sided economic development of the various regions. Bihar has to its credit a number of

important industries—coal, iron and steel, sugar, cement and paper, yet it is very poor and its population suffers from malnutrition to an extent that is not common in other parts of India. The wealth of the province has enriched the *entrepreneurs* of Calcutta and Bombay, but it has brought little of that prosperous glow that we find in these commercial centres to the Biharis themselves. The South has also witnessed comparatively less economic development. The localisation of industries has got to be better planned to make the optimum use of our economic resources, but the principle of organic unity must be maintained. The matter has been shelved for the time being but the controversy has by no means died down.

There must be national consciousness before there can be any strong provincial feeling and outlook. It is a prerequisite in the absence of which there can be no cohesive forces to keep the country together. Even in countries with a large amount of cultural autonomy for regions, the national sentiment is given top consideration.

## CHAPTER X

# *THE PSYCHOLOGICAL BREAKDOWN AND FALLACY OF OUR FOREIGN NEUTRALITY POLICY*

SINCE the middle of the nineteenth century and more especially in the last 60 years there has been a growing feeling of national consciousness. High expectations were naturally pitched on the idea of Independence. There has always been a desire for over-simplification among certain sections of the people and perhaps more so in this period. The last 1,000 years had almost sapped the very life-blood of our nation as this period largely represented the period of alien rule. The very idea of Freedom was, therefore, so full of life that people expected the dawn of a new era which would bring them the fulfilment of their long-cherished hopes and expectations. So great was the thrill that many people forgot the tremendous amount of responsibility that the change brought on their shoulders.

There had been a growing sense of frustration with the old order and the vast majority were groaning under its inequitable ills. They had been told that the attainment of Freedom would open up a new vista of development and growth, the like of which had never been seen before. Even before the transfer of political power became an accomplished fact the air had been rent with cries of big plans whose figures ran into astronomical totals and which foreshadowed doubling and trebling of our national income in the course of a decade. Not many had realised that some of the basic assumptions of these plans were based on quicksand. When criticisms had been made earlier of their financial implications they had been brushed aside as chimerical. Against this background, unduly high expectations were only natural.

But there was hardly any sign of a genuine understanding of the immensity of the task and the complicated nature of our problems amongst large sections.

If a revolution is properly organised it unleashes a tremendous amount of energy and drive for supplanting the old order and creating and laying the foundations of a new one. A study of the course of the French Revolution illustrates this fact. After the initial successes the Revolutionary forces carry out a ceaseless drive to root out the old elements of disorder. The American Revolution unleashed the creative energies of the new settlers for they saw in it an opportunity to come into their own and to be able to rise to their individual stature and give expression to their personalities. In this country, there was a curious phenomena. Instead of feeling that the dawn of freedom was the beginning of their great constructive endeavours many sections exhibited a feeling that showed that they expected spoon-feeding. The present atmosphere of gloom and disgust and a general sense of utter helplessness which we see around show that the expansionist forces which were on the horizon have more or less dissipated themselves and the psychological feeling is at its lowest ebb since 1942 when there was widespread fear and uncertainty. Even among the younger sections one finds the prevalence of this attitude and one shudders to comprehend the consequences if these ideas really take root in the minds of the younger generation.

That was the time when the colossal nature of our task should have been brought home and the available energies may have been canalised. That was hardly the time for pacification. A nation's real test is when it passes through a crisis. It was this ability to bring home the real dangers to the British people which carried Churchill during the dark days of the Battle of Britain. It evoked such tremendous amount of hard work and suffering that the tide was finally turned. The end of the war found Britain on the economic rocks and it was due to the sheer ability of

Sir Stafford Cripps in making the British people realise the gravity and the stark realities of the situation that she really began to turn the corner. There is no doubt that the British nation responded magnificently. The long years of foreign rule no doubt had created a crisis in our national character and it may be too much at this stage to expect a similar response. Yet, if these energies had not been allowed to spend themselves so fast, the general feeling may not have been so apathetic.

To an extent the present psychological framework is due to the failure to realise that the achievement of Independence was attended by the pangs of Partition and it was only a relentless effort in the socio-economic field that would bring about the fruits of political emancipation. Some of our spokesmen did not bring home the fact that Independence was only the beginning of the national efforts and not the culmination of our struggle. Unfortunately, in this country the mass mind requires a great deal of leadership and places a very heavy responsibility on them. In the absence of education and a developed sense of corporate responsibility their energies may often go to waste. The creation of a new psychological optimism was necessary to draw upon the latent energies of this vast mass. There was also a feeling that most of our ills were a resultant of the foreign yoke and once it was ended the cure would automatically be forthcoming. There can be no denying of the paralysing effects of a mentality born in such an atmosphere but there was hardly a realisation that without great sacrifice and unremitting work there could hardly be any economic salvation. That to the common man political freedom means so little in the absence of economic emancipation has still got to be widely understood.

### *NEUTRALITY POLICY*

A country with its natural situation such as India's cannot afford to remain in isolation. Even in the days gone by when the mountains acted as great barriers there was

always some sort of contact with the outside world. Our vast coastline places us in a very enviable and strategic position. The development of the air travel has come as a disillusionment to those who believed in other natural boundaries. India's foreign and economic policy has got to be based on a realisation of this fundamental fact. Isolation in today's circumstances, can only mean distrust when the world is being divided into power blocs.

There is already a cold war in progress between the Western bloc led by the United States and the eastern or Slavic bloc led by Soviet Russia. The cold war sometimes shows signs of becoming a hot one. The determination of the two opposing camps to continue this state of affairs is evidenced by the Western Powers' determination to stay on in Berlin despite the weather and communication difficulties, and Russia's determination is clear with the formation of the Eastern Economic Council. This Eastern Economic Council is more or less an answer to the Marshall Plan. Meanwhile efforts are being made to have a strong European Union closely united to the American continent with military and economic ties.

There is no immediate prospect that an understanding will be reached between these power blocs. This, however, does not mean that we are on the brink of another catastrophe. It is clear that neither power is in a position to start a real "shooting" war just now as the world has not even begun to show signs of recovery from the horrors of the last. But the struggle continues unabated and it means more and more testing of each other's strength.

In a situation like this our policy of neutrality is looked upon with a feeling of distrust by both the opposing blocs. On the one hand, the Western bloc, with its powerful Anglo-American press and organised propaganda machine, has been telling a very different tale to satisfy its own ends. There is no denying that there is a terrific amount of misunderstanding about our policies and our problems in United States alone, where the propaganda machine is quite

active. On the other hand, there is the Russian *bloc* that has also not spared us of its criticisms. When India attained her Independence there was only a small news item in the Russian Press to the effect that a new Government under Pandit Nehru had assumed office. Not long ago, the leader of our United Nations delegation, H. E. Mrs. Vijayalakshmi Pandit, had to refute some of the accusations levelled against this country in the U. S. S. R. and when one of the members of the Assembly enquired whether that had been done after due consultation with the Foreign Office, Pandit Nehru replied that it was done in absolute accordance.

The question is whether in today's world conditions strict neutrality is practicable for a country of the size and strategic location of India. The first world war was largely European in character as it was mainly fought on land frontiers though there was fighting in Turkey and Mesopotamia. The second world war saw the theatre widely spread not only to the European Continent and British Isles, but also to Africa, the Pacific, the Far East and South-East Asia. No doubt the Western Hemisphere and Australia were spared the horrors of an actual battleground as they largely remained the biggest supply bases. The next world war, when it comes, is not likely to be confined to any single continent. In fact, the cold war between Russia and the United States seems to have halted at least for the time being in Europe after the absorption of Czechoslovakia in the Eastern *bloc* but this does not mean that it has ended there. The moves can be very easily seen in Asia where Communism is making a bid to spread its tentacles. In China we have witnessed the swiftest collapse of the corrupt Kuomintang forces and even in Burma, Malay and other parts of Asia the Communist forces are not sitting quiet. The Western Powers are doubtless studying the situation closely. The British recently called a Council of Colonial Governors to discuss the situation and formulate their future line of action. No marked reactions are yet available from Washington but the situation is being very carefully studied there.

There is not the slightest doubt that it would be best to stay away from this game of power-politics and keep ourselves out of any future world conflict, but the fact remains that complete neutrality is becoming now more of a fiction than a real, practical basis. In the midst of this conflagration that is spreading around us, there will be other nations that might force us into the next war. Each *bloc* realises the strategic position of India and would like to have her on its side. It remains to be seen if at that time it will be easy to withstand the pressure of pincer movements that might develop when the cauldron bursts forth.

The other great disadvantage besides the lukewarm and hostile attitude of the foreign press, is the fact that the Western countries seem to be, unfortunately in a position where they can influence our dependence on foreign technological skill and delivery of capital goods and machinery. They are, no doubt, more or less, determined to hold that as a bargaining counter and the continuance of a more or less completely neutral policy will mean no active co-operation from these countries in these matters. Evidence is not lacking to show that in order of priorities our needs have been rated not very high in the past three years and it partly explains our utter inability to secure heavy machinery and capital goods in this period. It means that we are being continually exposed to this serious economic danger which will make our transition much longer and far more difficult if we are continuously living in a hostile world.

\* It seems rather hard to comprehend how foreign capital and technical know-how can find an incentive to come here under these conditions and to hope it would play a big role no doubt appears wishful-thinking. This does not imply that we have to sacrifice our political sovereignty.

There has to be, however, at some stage or the other, some sort of a more definite enunciation of our foreign political and economic policy, if we are to relate our economic development to world economic forces. The other alternative is to have a more or less closed economy

and to struggle all by ourselves, with the result that our economic superstructure cannot be properly related to the economic pattern of a fast changing world.

India's close ties with the other Asian countries have been strengthened in the past two years. The holding of the Asian Conference here in early 1947, the recent Asian Conference to consider the question of Indonesia and the informal Conference on Burma confirms India's aspiration to lead the Asian countries, and are a very healthy pointer in that direction. *If it means the emergence of an Asian bloc it might help the balance of power in this part of the world. A growing appreciation of community interests among the Asian countries will also help the solution of some of the economic problems of mutual interest.*

At present a great deal of our food imports is purchased from the dollar areas and if there could be a better understanding we might be able to procure at least part of these supplies from our neighbouring countries.

Our foreign policy has got to take full stock of the complementary character of Indo-Pakistan economies and a regular flow of raw materials like jute and cotton and wheat can only come about through greater mutual understanding than has been noticeable so far. Inherent strength is undoubtedly the corner-stone of a successful foreign policy but it has got to be accompanied by an honest and intelligent appreciation of one's needs and the economic interdependence of our economy.

Prior to the war most of our rice imports came from Burma and Indo-China. The politically unsettled conditions in these areas have contributed to make our share of supplies small, but closer political and economic relations can help to reduce the drain on our slender reserves of hard currencies. There is still room for greater understanding and better results than have been hitherto achieved.

## CHAPTER XI

### *THE FATALISTIC APPROACH OF THE BUSINESSMAN*

THE organisation of commerce and industry has been very peculiar in India. Under the aegis of alien imperialism there has remained a big dearth of enterprising and efficient managerial personnel. The efforts of many an *entrepreneur* were no doubt greatly handicapped and circumscribed by the political subordination but the fact remains that there were few *entrepreneurs* of the strength and stature of Sir J. N. Tata and Sir R. N. Mookerjee, who by their daring skill and foresight laid the basis for the development of our most vital industry—iron and steel.

The peculiar conditions of our economic organisation gave rise to a predominantly speculative structure. The existence of commodity markets in cotton, bullion, seeds, jute, gunnies and shellac in Bombay and Calcutta was a further impetus to speculative elements. No doubt the amassing of fortunes in the 'thirties was quite rare and only those who were able to successfully manipulate the markets were able to do so. There has always remained a dearth of adventure capital which alone can be an enduring basis for industry. Industry requires long-term investment and it needs very careful husbanding of resources and management. It cannot be expected to yield huge returns from the very beginning. Speculation is based on the idea of quick and easy returns. It is no doubt not easy to forecast the future movement of the market and that is principally the reason why the majority are always losers in a speculative game but it no doubt provides an opportunity for the successful manipulator who can judge the market and take unusual risks. Every business or industry involves a certain amount of risk but the risk involved in speculation

is not the same as that involved in industry,—for the approach to the two problems is quite different. While efficiency and scientific management are the archstones of successful industrial enterprise, speculation requires quite a different talent and the history of many *entrepreneurs* in the West hardly bears any relation to their success or failure in the speculative markets.

The elimination of waste of all kinds in industry is the key to efficient production at the lowest possible cost and it is here that the responsibility of management comes in.

In India, even in a modern and fairly efficient works such as the Tata Steel Plant, several defects of control and management exist. The large amount of coal consumption is a chronic evil in India. With better supervision the percentage of ash in coaking coal could be brought down in the Tata Steel Works.<sup>1</sup> The maintenance of cost accounts could be improved in nearly all industrial concerns in India. Cost accounting as understood in the West exists here in the most rudimentary stage and in many an industrial enterprise it is hardly organised on any scientific and rationalised basis. Without proper costing methods there can hardly be any budgetary control and without controls over each section and department you can hardly determine whether that particular section or department is working efficiently or not.

It is this budgetary control which enables the management in foreign countries to fix targets and to see that the working conforms to these targets. If the working reveals that the targets were too optimistic they are scaled down after due consideration of the various factors involved. In no organised industrial unit can there be any planning if these controls do not exist.

In the cotton industry inefficient buying of raw cotton has resulted in the purchase of cotton unsuitable to

<sup>1</sup> Indian Tariff Board Statutory Enquiry ; Steel Industry, 1927, Vol. 3, page 8.

withstand the pressure when finer spinning is attempted. The use of inferior cotton and the lack of uniformity has led to too many breaks and to low production. Indian industry is full of waste and great economies will be possible in the use of materials and labour if organisation is strengthened.<sup>1</sup> Although this observation was made as far back as 1935 there has hardly been much noticeable change in the situation for the better.

In the Western countries so much time and thought have been devoted to the problem of Time and Motion studies and many a process has been made very efficient through a careful weeding out of the unnecessary ones that the cost of production has been brought down considerably. Very little has been done in this field in our country and there has hardly been an attempt to grapple with the problem in its correct perspective.

In the coal-mining industry the defect of organisation is revealed in the very slow rate at which mechanical methods of raising coal have been employed. The introduction of electric power, the use of mechanical coal-cutters and labour saving appliances and several other possible economies have not been effected.<sup>2</sup>

In the field of marketing even the ground has hardly begun to be scratched. No doubt the continued scarcities of many a commodity have blurred the need for a real marketing organisation but even in the pre-war normal times most of our industrial enterprises had no effective marketing research nor were any scientific surveys made of the consuming areas to find out consumer tastes and preferences. Whatever estimates of consumption and distribution were made had to be based largely on guess-work or the limited experience of the field-workers. If the last two years have

<sup>1</sup> Quoted from *Industrial Organisation in India* by Dr. P. S. Lokanathan, page 323.

<sup>2</sup> *Ibid.*

been any pointer, they clearly reveal that the seller's market is about over in many lines in the United States, and even in the United Kingdom. Foreign competition is only beginning and it will really assume serious proportions as time goes on. So far, the Indian *entrepreneur* has given very little thought to the problem of marketing methods and research, and the danger of his being caught napping cannot be easily dismissed.

Even in the field of scientific research the record of the Indian industries is deplorably poor and there are very few research associations of any importance to aid the national economy. Scientific research may not yield quick profits which some of our speculative-minded businessmen would like to reap but it strengthens the base of industry and gives it the resiliency to withstand the period of a crisis in a much more able manner than unaided by it.

A certain amount of research has been done in recent years by the Indian Institute of Science at Bangalore and by the recently expanded Scientific Research Council in Delhi. The Forest Research Institute at Dehra Dun, the Bengal Tanning Institute in Calcutta, the Madras Leather Trades Institute in Madras and the Tea Planters' Association have conducted some useful research but the amount and scope of their labours have hardly touched the fringe of the problem. The Indian industrialists themselves have shown very little interest in organising scientific research even in the last few years when their financial reserves and earnings have been quite plentiful. Before the war, they could easily advance the plea of financial limitations but now that sort of explanation cannot hold water. Many of our industrial heads even lack the technical knowledge of the industries that they presently control and lack the scientific spirit.

In such an important field as jute manufactures which are the life blood of Bengal and the mainstay of our export economy, the Indian Jute Mills Association have hardly done any research to meet the competition from substitutes

nor has anything been done in the field of our other items either.

Even in matters of statistical and general information the woeful lack of precise data is too well-known and in spite of this widely understood deficiency little attempt has so far been made to strengthen this base.

In matters of personnel relations the approach of most of our businessmen so far has been crude to say the least. Labour for a long time was considered a mere cog in the complex machinery of production and even the last 100 years of revolutionary progress in labour standards and organisation have not yet changed the concept very much in this country. Today, the managements are trying to throw all blame for the low productivity on the non-co-operative attitude of labour and their demands are dubbed as dictates for more pay and less work. There is a certain amount of truth in this dictum but it is by no means the last word on the situation. The fact is that there has hardly been any attempt to realise the human aspect in labour relations and so long as this factor is not fully appreciated you cannot just create interest in labour to play its proper role. Gone are the days when methods of regimentation could work wonders. Organisation no doubt counts but when it springs from a co-operative angle it has a much greater effect than if dictated by the spirit of dictatorial methods. During the war many of the industrial units were required to have labour officers and in some instances there was also a fanfare for other labour welfare schemes. It was very good as far as it went but to feel that the responsibility of management just ended there with the compliance of these directives is to look at the matter of public relations from a standpoint whose validity has long been challenged and which has been thrown overboard in the advanced economies. There have been some far-sighted and enlightened employers in this country who have shown a much better grasp and understanding of the change but

unfortunately they are too few and their lead has not met with the response that it deserved.

In the past the main factor behind the success of many a businessman in this country has been his shrewdness in matters of finance and a certain amount of empirical judgment in management and early start. There has never been a real effort to assess the strength of the organisation in terms of productive efficiency or of sound public relations policy. In the last few years many changes have taken place in the composition of our commercial and industrial community and incidentally the speculative element which has been dominant ever since has grown much more preponderant and many industries both long established and those that were started during the war have come into the hands of speculators and financial manipulators. The huge war-time profits, the easy money-making which we have witnessed in the last few years, aided by the fact of a continually rising price level, was a boon to some of the leading speculators. These bulls, and holders of goods and commodities reaped gains that were unheard of in normal times. Many a concern changed hands at fabulous prices and to quote only a few examples—the two coal-mines of Baraboni and Ekrahas were purchased for over 80 lakhs of rupees; the Swadeshi Cotton Mill of Cawnpore was reported to have been bought for over 3 crores of rupees; Govan Bros., was sold for over a crore and many others newspaper, textile, jute, tea and engineering interests were bought over at tremendously inflated levels.

The quick returns on some of them may also sound incredible and astronomical. So large has been the change that some of the Managing Agents now control hundreds of concerns of a varied character—having little in common—viz., a Managing Agency house may be interested in cotton, jute, sugar, paper, banking, insurance, steel, food products, automobiles, etc., etc. It does not mean that a concern should limit its enterprise to any one or a few particular fields but when an organisation has its tentacles in so many diversified

fields it has got to have a nucleus of experts who can man the units on a basis of efficiency and scientific management, otherwise the long-term social cost of running these enterprises becomes prohibitive.

These speculative elements have had their hey-day, and even in matters of taxation there is ground to believe that not many have been inspired by a full sense of national consciousness and social responsibility. It seems clear that the business community at large has not yet quite settled down to the new changes that are visiting them nor have they shown any real endeavour to adjust themselves to the great transition through which our country is presently passing through.

In the old days the chief advantage in India lay in plentiful supply of raw materials and cheap labour and this was responsible for the establishment of many of the existing industries that we find.

In terms of productivity the labour output was low but the level of wages was so low that the burden was not so heavy. Cheap labour was forthcoming because, comparatively speaking, there was no dearth of food, housing and bare minimum of clothing. Though our food production was very deficient, judged from the standpoint of nutrition and balanced diet, yet the fact stood out that our food prices were comparatively very low and there was no great dependence on foreign foodgrains such as we are witnessing today. There is further the difficulty of housing and extreme congestion that did not exist anywhere near what it is today. Especially, in the large urban and industrialised centres there was a tremendous increase in the population during the war as a result of the war activity and the establishment of many supply factories. The cities and more so the labour areas were already suffering from the ills of concentration as there was hardly any planning in the lay out of cities. The influx of people from the rural to the urban centres did not end with the war as some may have thought. On the other hand, further large scale additions continued

and the rush was accentuated by the Partition and the movement of displaced refugees who naturally flocked to the cities in search of some work or employment. As a result of these factors, the population numbers swelled up enormously and Calcutta which had a pre-war population of nearly two million has already surpassed the six million mark. Bombay's figure has jumped up from  $1\frac{1}{4}$  to nearly  $3\frac{1}{2}$  millions. Cawnpore has more than doubled itself and Delhi which had a population of nearly 6 lakhs in 1941 is said to contain today more people than the city of Los Angeles. The other industrial centres of Ahmedabad, Jamshedpur, Nagpur, Sholapur, Madras, Jubbulpore have recorded similar increases and these have come about during a period when very little new construction has been noticeable owing to high prices, lack of availability of the construction materials and labour shortage. Under existing conditions housing is in a very bad state and it is simply dreadful to imagine what an amount of demoralisation it leads to. It partly explains the low standards that are coming into increasing evidence each day.

Businessmen have got to realise that the days of cheap food and cheap housing are no where near. Our dependence on imported foodgrains seems to increase every year. The latest estimate of the Provinces' needs is of the order of 6 million tons and allowing for the annual population increase of 5 million mouths the figure will be simply swelled up. The housing situation will also take years before it can be expected to reach the desired normal stage. It would be foolish to expect that there would be a back-to-the-village movement to relieve the situation. There is, thus, no chance of these two items becoming plentiful and cheap in the next few years. *If anything, the struggle of life for the common man is likely to become harder in the face of our continually falling production and increasing population.*

There is no sign to show that the businessman and the industrialist are trying to adapt themselves and their organisation methods to meet the new situation. The

industrialist has, therefore, to reckon with the factor of high labour wages continuing into the future. He has also to face the fact that our position with regard to raw materials supplies has also changed materially since the Partition and supplies of raw jute and raw cotton may not be so regular, plentiful and at cheap levels as in the past. Normally, the raw jute production was sufficient not only to meet the needs of the Indian Mills whose consumption is currently estimated at about 60 lakh bales but also provide a surplus of 3 to 4 million bales for export principally to Dundee and Germany. Our present crop estimates are in the vicinity of about 80 lakhs of bales at the most and much depends upon the weather conditions.

In the face of these factors the position of our economy is coming to be more and more patterned after that of Great Britain. Britain also depends upon imports of raw materials from abroad and she has to annually purchase a large part of her food requirements. We have thus become more or less a processing nation after the Partition.

Whereas, Britain has the great advantage of a very well developed and strong industrial base built over a long period of nearly two centuries and the resources of a vast commonwealth and Empire, we have neither a strong industrial edifice nor world-wide economic resources. Besides, Britain has a very good supply of experienced labour force and a politically disciplined body of citizens. We are just beginning to trudge on our political road and we lack that trained labour personnel and the democratic tradition which only comes through a long and constant practice of the parliamentary institutions.

We also lack the resiliency of a healthy and well-organised industrial system and our only consolation and chief hope lies in our vast, untapped potential resources of power and minerals and shall we say, the national aspirations of our people. The *entrepreneur* of the future has, therefore, to take stock of these factors to pattern his working on this

basis. There is no use in the businessman crying for the past and revelling in its glories.

Businessmen have not yet realised that industry is like a plant that grows in virgin soil and needs very careful husbanding and nurture. If the plant is not well taken care of, the result is that the plant decays and withers away. The stage is being increasingly reached in our economy where inefficient, stereo-typed and unhealthy units will find it increasingly hard to stay in business. This does not mean that they will just pass out of sight but they are nevertheless going to find the struggle of survival increasingly more complex and difficult if they persist in the present speculative rut of events and do not adapt themselves to the changing times.

There is no doubt that there has been much in the last two years to unnerve many a businessman but the fact also remains that the fatalistic psychology which is gripping the Indian business world is not going to improve matters for anyone. If any, it will only bring about self-annihilation and speed up the process of disintegration.

be able to make progress it has got to be able not only to replace the existing amount of capital goods and productive equipment but it must have the inherent ability to create more than is currently consumed—thereby creating a surplus which forms the backbone of continued development.

This precipitate fall in the rate of capital formation has also been noticeable to some extent in the United States and also in Britain but there the situation has not been so serious. The United States economy has demonstrated its dynamic capacity to convert itself so rapidly to a peace-time economy and even Britain has been geared to fight the economic battle. In a country like India, the problem assumes a much greater significance for we have hardly begun on the road to healthy economic growth. Legislation which has a tendency to retard, discourage or deplete capital formation in the long run defeats its own purpose and destroys the wherewithal and incentive to increasing production.

The great disorganisation of civilian life in the Punjab has been a contributory factor in the decline of savings as millions of refugees have had to almost waste their efforts and to draw upon their past savings.

Under any scheme of economic development there shall have to be a great deal of thought devoted to restoring this equilibrium and making it possible for the nation to save and to utilise the savings in productive enterprise i.e., allow capital formation and capital intensification.

So far the Government authorities have shown scant regard of this fundamental fact without which the grandiose plans may remain a Utopian dream. Even in Hitlerite Germany and Bolshevist Russia the factor of capital formation and savings was given great significance and its importance to a socially democratic state is all the more necessary.

After all, our past savings and reserves are so slender that if our industry continues to eat into it the day will be

reached sooner or later when the catastrophe will burst forth upon us. The history of the economic development of pre-war Japan clearly shows that it was able to achieve the stupendous economic advance largely as a result of a very high rate of saving and capital formation. The average *per capita* standard can only be improved, in the final analysis, by progressive capital intensification, and the close relationship between the rate of capital formation and economic progress will also have to be more fully understood.

According to conservative estimates we need to save nearly 600 crores of rupees annually even to stage a comeback to our pre-war economic level and the figure will have to be stepped up much higher if the tempo of our economic progress is to be faster. In the pre-war years the share of agricultural production was nearly half of our national income whereas in recent years it has been estimated at over 57 per cent. and this shift will have to be arrested sooner or later if a balanced economy is desired. The stage is already being reached where the non-agricultural sections cannot tighten up their belts anymore, in the empty hopes of a Utopian future.

### *INDUSTRIAL LABOUR IN TURMOIL*

During the war years there was a comparative absence of prolonged labour strikes partly due to the emergency war-time powers then vested in the administration and also because the industrialists did not hesitate to pay increased wages and dearness allowances in the face of increasing production, a rising price level and large pent-up consumer demand.

In the last three years, however, there has been an organised and uninterrupted clamour for higher wages, increased bonuses and additions to the dearness allowance on the part of industrial labour. The following figures will illustrate the tremendous increase in the number of

## CHAPTER XII

### OTHER CONTRIBUTORY FACTORS

#### THE CRISIS IN CAPITAL FORMATION AND LACK OF PRODUCTIVE SAVINGS

ANOTHER grave symptom of the present *malaise* is the almost complete absence of capital formation in the last two years and a half. The low productivity of our economy was responsible for a very low rate of savings even in pre-war years. Most of our agriculturists then had a bare sufficiency and the proportion of large savings was confined to the middle classes and to the upper income groups. It has been estimated by Colin Clark that the annual investment during 1919-23 was 150 crores, while in 1924-28 the figure stood at 140 crores, Rs. 114 crores in 1929-33 and Rs. 139 crores in 1934-38. The average would be anywhere near Rs. 140 crores pre-war. In the last two years and a half, there can be no denying that agricultural prices have not only stayed high but have actually sky-rocketed and some of the wealthier peasants who have over 20 to 30 acres of land and more have benefited considerably. In view of the fact that consumer goods have not been so plentiful nor has there been an abundant supply of agricultural implements or livestock, these gains have been partly devoted to hoarding and some to the purchase of bullion. It is difficult exactly to assess the amount of savings in this sector but whatever the figure, these savings have not flown in to increase our productivity either in agriculture or in industry. As a matter of fact industry has been almost starved of any new additions to capital—this is evident from the Stock Exchange paralysis and the complete absence of investment in this period: On the other hand, several of the existing industries

are finding it increasingly difficult to meet the abnormally high costs of replacement and renewal and have had to take recourse to bank loans or are contemplating to issue debentures. In normal times the necessary finance for these requirements came through stock flotations but under present day circumstances industrial units have hardly any chance when the National Government's borrowing programme has had no cheerful response from the market.

The condition of the middle classes is indeed pitiable for they are largely drawn from the educated groups and belong more to the fixed income categories. Their savings have been whittled down as most of these were invested in Insurance policies, Provident Funds, Cash Certificates and Savings Bank accounts whose values have been fast evaporating with every fresh impetus to the inflationary momentum. To expect of these classes to have saved in this period would be to ignore the realities. The other big section was the upper income group which has also suffered from the ills of high taxation, reduced buying power, etc.

It has been estimated by the *Eastern Economist* that there has been an actual negation of savings in the last two years. There is not the slightest doubt that economic development depends upon the rate of capital formation. We have seen that in this period there has been very little new construction or additions to our durable equipment or net flow of goods abroad and the savings among the agricultural sections have remained more or less out of this purview. An economy which seeks to build itself on a continuously expanding basis has to be kept fully fed with a continuous stream of savings. For, it is these savings that form the chest or shall we say the reservoir of economic progress. There is always a flight from savings if the individuals prefer increasing present consumption to future needs. The instability of Government, the crushing incidence of taxation are all factors that tend to dissipate the normal flow of savings. In order that an economy may

be able to make progress it has got to be able not only to replace the existing amount of capital goods and productive equipment but it must have the inherent ability to create more than is currently consumed—thereby creating a surplus which forms the backbone of continued development.

This precipitate fall in the rate of capital formation has also been noticeable to some extent in the United States and also in Britain but there the situation has not been so serious. The United States economy has demonstrated its dynamic capacity to convert itself so rapidly to a peace-time economy and even Britain has been geared to fight the economic battle. In a country like India, the problem assumes a much greater significance for we have hardly begun on the road to healthy economic growth. Legislation which has a tendency to retard, discourage or deplete capital formation in the long run defeats its own purpose and destroys the wherewithal and incentive to increasing production.

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leaders have either not appreciated the fact that a real increase in labour standards can only come through constructive leadership and increasing production or have shunned their minds to the stark realities of the situation. The labour leaders have also failed to emphasise the need of savings however small, among the labourers and some of them have hardly shown a real appreciation of the handicaps under which common labour suffers and have been content to stir up agitation and foment strikes without thought and consideration of the disastrous consequences on the labour itself in the long run through loss of wages, lower production and rising prices.

### **LACK OF CAPITAL GOODS AND MACHINERY**

The heavy pressure of meeting the war-time need of military supplies placed a very heavy strain on our industrial equipment. Even before the war, the machinery in our large, organised industries was worn-out and obsolete from the technological standpoint and the factor of efficient production. The plants of many of our cotton mills belong to the pre-World War I age. New mills with automatic looms and modern machinery had been installed in a few cases in Bombay, Ahmedabad, Delhi but their percentage remained small. In the case of jute mills, the early adventurers from Dundee started with small plants and later increased their capacities heavily from 1900 to 1909 and by 1909 there were 38 companies with over 30,000 looms. Immediately after the World War I there was a big spurt and by 1927 the looms had increased to over 50,000. Since then the number has not increased by more than 15,000 which clearly shows that most of the machinery employed is quite old and in some cases dates back to the nineteenth and early part of the present century. During the war years there were practically no imports of capital goods except some that came through Lend-Lease and were largely devoted to defence than to meet civilian requirements. The war necessitated extra shifts, and there was hardly room

for complete renewal and replacement. As a matter of fact, even the proper maintenance and repairs were neglected and the situation has been aggravated by the continuance of these conditions for nearly 10 years now.

The dawn of peace had created a hope among the industrialists that capital goods would be forthcoming in increasing quantities. The vast pent-up demand of their domestic economy has kept the U. S. A. manufacturers extremely busy with a big waiting list of orders. Then came the requirements of Latin-American countries who have been traditionally the buyers of American equipment and latterly American shipments have flowed more to the European Continent under the European Recovery programme. India's needs have figured almost at the bottom of the ladder.

United Kingdom was the other chief source of supply and the transition through which her economy has been passing, has no doubt proved to be a very serious bottleneck and with Germany more or less devastated there was hardly any other major source to meet our immediate needs.

These difficulties have been further accentuated by the fact that the prices of capital goods in many an instance stand at three to four times pre-war levels and the huge depletion in the cash reserves of our industrial units owing to the chain of unfortunate circumstances are now compelling the postponement of some of these modernisation projects.

### *DEFICIT FINANCING*

Another important factor which has aggravated the present crisis is the policy of deficit financing which has been pursued in the last two years without much thought of its serious repercussions on an already inflated economy.

Hopes had been raised that the end of the war would not only see a huge curtailment in our defence expenditure but economics would also be effected in the realm of civilian expenditure. The last two years have been characterised

disputes involving work-stoppages and the number of working days lost.

	<i>No. of Disputes involving Work Stoppages</i>	<i>No. of Workers involved (000's)</i>	<i>No. of Man-Days Lost (Millions)</i>
War Years 1939-45 (average) ...	567	535	4.5
1946 ... ..	1,629	1,962	12.7
1947 ... ..	2,251	2,352	16.5

It clearly illustrates that the number of industrial disputes in the past two years have been nearly three to four times the war-time average and the number of workers involved in 1947 was nearly  $2\frac{1}{2}$  million representing approximately two-thirds employed in organised industries falling under the Factories Act. The serious effect of this prolonged wave of strikes was felt on all sectors of our industrial economy and the iron and steel industry, railways, posts and telegraphs, cotton textiles were all victims of this unhappy situation. Instances were found in jute mills, where the labourers openly challenged the managerial authority and in some cases it lead to scuffles and utter disregard of discipline.

No doubt the continually rising spiral of prices was driving some of the labour elements to the brink of desperation. The labour cost of living index in the last two years rose by nearly a 100 points and it was not easy to adjust the family budgets in the face of such an inflationary situation in our economy.

There is no doubt that labour in this country was living a life of squalor and drudgery before the war. The low productivity of labour per head is no doubt the main reason but the fact remains that the way of an average worker's life was sub-human judged by any standards. The condition of worker's tenements where more than a dozen and more are crowded into very small rooms with hardly any ventilation, lighting or privacy was deplorable. The workers food has little variety, if any. The average labourer is woefully lacking in education.

Some of the capitalists might argue that labour today has much more leisure than it ever had before, owing to the reduced number of working hours. There has also been an increase in the amount and number of movies that he goes to now and there is no denying that in last few years a part of his increased money wages has also been spent on gambling, drinking and other vices which are characteristic of migratory labour uneducated in the art of living. The fact remains that the surroundings in which the worker finds himself are at once so filthy and dirty that he has to take recourse to some sort of a diversion as an escape from his daily activities. It is too much to expect of a worker that without education he will be able to find better outlets or that he will be able to cultivate finer impulses and sublimate his emotions. After all, the worker is only human and he has his human weaknesses like the rest of us. If he cannot find a better form of diversion and escape from his groaning ills, with the background that he has, is it wholly right to blame him? No doubt the protagonists of the *Theory of Free Will* will argue that an individual has got the ability to decide for himself and that he is entirely free to do so. In theory, this approach has merit to commend itself but we find in actual practice that the environment in which an individual is brought up has much to do with his mode of thinking, his likes and dislikes, his habits of amusement and pastime. So to expect that he would make a much better use of the little extra money that he makes is to ignore the facts of his environment and the mode of his upbringing. In a way, it may even be futile to expect from him an increased sense of responsibility and more productivity until some of the basic factors governing his psychological behaviour are changed.

There is of course no denying that in a good number of cases the labour discontent has been exploited by some of the labour leaders who have been motivated in their actions, more to profit themselves than promote real labour interests or help the country's production battle. These labour

leaders have either not appreciated the fact that a real increase in labour standards can only come through constructive leadership and increasing production or have shunned their minds to the stark realities of the situation. The labour leaders have also failed to emphasise the need of savings however small, among the labourers and some of them have hardly shown a real appreciation of the handicaps under which common labour suffers and have been content to stir up agitation and foment strikes without thought and consideration of the disastrous consequences on the labour itself in the long run through loss of wages, lower production and rising prices.

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by the existence of such an emergency and delicate situation that it has been absolutely incumbent to increase the armed and police forces in order to maintain law and order in this vast sub-continent. The mass murders which started in the wake of the Calcutta Killing of August 1946 created such disorganisation, that it became necessary to use military force in many instances. Then came the holocaust of the Partition and the uprooting of millions of men, women and children. Punjab witnessed the largest mass migration in human history when nearly 8 million refugees crossed the border either way to seek shelter and security of life. The refugee problem assumed such serious proportions that the Government of India spent nearly 22 crores of rupees from the time of the Partition till March 1948 alone. Then came the Hyderabad tangle which hung over us for nearly a year and finally the undeclared war in Kashmir. All these factors taxed to the utmost our defence resources, the demand on which had grown up immensely during the war. Even in the pre-war days it constituted nearly 50 per cent. of our total budgeted expenditure. The Partition brought home to us the bitter lesson of our chronic food shortage. The Bengal Famine had of course been a danger signal but its grim warning had not been properly heeded. The loss of the canal colonies in West Punjab, from where most of our wheat surplus came made it necessary to import far greater quantities of foodgrains and the distribution of these supplies had to be made at lower price than paid by our Government. This resulted in the subsidisation of food and cost the Exchequer nearly 22½ crores of rupees in the past year alone.

To this has to be added, quite a substantial amount which has been spent by the provinces as well as the Central administration on various projects in order to sustain the high level of public expenditure that was characteristic of the war. The increase in the dearness allowances and other benefits conferred by the Central Pay Commission and the various awards have also swelled up the huge expenditure figures.

Instead of witnessing any decrease in the civilian administration we have on the other hand increased our expenditure. Complaints were often voiced of the top-heavy administrative structure of the British system but we find that there has been hardly any departure from that. It is true, that salaries of a few top officials may have been reduced but the standard of efficiency has hardly shown any improvement for the better. If any, it has shown signs of a decline. Thus, there has been no net saving in the total volume of expenditure and the result has meant a very considerable drain on our finances during this period. The extent of the drain can be gauged from the fact that the Government of India's balances with the Reserve Bank which stood at 462 crores in June 1946 have fallen presently to 240.88 crores. In other words, there has been a fall of nearly 222 crores in the course of the last two years and a half.

### *FAILURE OF CHEAP MONEY POLICY AND BORROWING PROGRAMME:*

The cheap money policy of the Government has also been responsible for the sustaining of the inflationary momentum. Such a policy is alright during a period of booming activity, but it has hardly any place in a transition economy such as we are passing through presently. It is an irony of fate that the British Government with its alien imperialism, lack of popular support and passive hostility was able to raise loans in 1945-46 to the tune of 336 crores of rupees when our National Government has failed in its borrowing programme and even the recent loan issued after the successful conclusion of the Hyderabad debacle could not meet any encouraging response. In the present-day market, the unofficial rate of interest is reported anywhere's between 6 to 9 per cent. and this rate is being paid by respectable houses of no mean standing. It reflects the stringency in money conditions as banks have tightened up their policy of advances and are now asking for much larger

percentage of margins. In the face of such a situation is it surprising that long-term loans with a low interest rate should not prove to be so attractive? There has of course been an element of political uncertainty, the psychology of despondency and a desire for acquiring bullion, jewellery and property interests.

### *INCREASING PRESSURE OF POPULATION*

The population of India in 1872—the year in which the first census—was undertaken was estimated at 206.2 millions and by 1921 it went up to 318.9 millions.<sup>1</sup> Since 1921 there has been a more spectacular rise and in 1941 the population was estimated at 389 millions for the Indian Union.

Since the Partition the picture has changed even further. The total population of the Indian Union including Provinces and States (excluding Kashmir whose fate will be determined by the forthcoming plebiscite) has been estimated at 314 millions and the area has been calculated at 11.27 thousands of square miles. In other words, the Indian Union's territory is roughly two-thirds of the total area while her share of population is nearly three-fourths of the total.<sup>2</sup> This is also clearly illustrated by the fact that Pakistan is said to have a population of 71 million as against an area of 365 thousand square miles and the density of population in India is estimated at 299 as against 195 in Pakistan. These figures are based on the 1941 Census and since then, the population has been continually increasing and a recent estimate was put forward suggesting the figure of 339 millions for the Indian Union. It is no doubt true, that the other countries of Europe, the United States and even Russia and Japan have witnessed spectacular growths

<sup>1</sup> Quoted from *India's Teeming Millions*, by Dr. Gyan Chand, Table I, page 44.

<sup>2</sup> Quoted from *Economic Consequences of the Partition*, by Prof. G. N. Vakil, Table I, page 6.

in their numbers, the crude fact has to be faced that this increase in India has come about without any corresponding increase in the net physical production of goods and services *per capita*. It is in this context of virtually static or stagnating production that the increase in population has to be viewed. If there was a commensurate increase in material productivity as in Europe or the United States the problem would have to be viewed in a very different setting.

### CRISIS IN AGRICULTURAL PRODUCTIVITY

India has been a predominantly agricultural country for centuries past and even today the share of her rural population has been estimated at 86 per cent. But, looking at the physical agricultural production we find that in the matter of rice which is the staple food for a large part of our populace, the 1947-48 index figure stands at 98 as compared with 100 in 1937-38. In the next most important item of food consumption namely wheat, the index figure also remains at 98. In respect of our two most important commercial fibres—namely cotton and jute, the index figure in 1947-48 stands at only 52 and 83 compared to pre-war. Coming to groundnuts and linseed, we find that our production index stands at 83 and 85 respectively on the basis of pre-war average and the general index of our total agricultural production stands at 97 as compared to 106 in 1943-44,<sup>2</sup> which remains so far our peak year of production both in agricultural and industrial production.

During the war the Government tried to show that a big drive for "Grow More Food Campaign" was in progress and nearly 16 crores of rupees have been spent by the Central Government in the years following the Bengal Famine but no tangible results in our agricultural productivity have yet been noticed and the food shortage situation is far more chronic than at any time in our recent history.

<sup>1</sup> Quoted from *Economic Consequences of the Partition*, Table 2, page 9.

<sup>2</sup> Quoted from *Annual Number of Eastern Economist*.

It is true that we are not passing through a famine such as we did in 1943 but we are nevertheless, on the brink of a disaster. If, we look at the consumption figures we find that in 1939 the food consumption per head of population was estimated at 388 lbs. and while it stood in 1943-44 (the year of the famine) at 379 it came down to 340 in 1945-46.

According to Dr. Aykroyd, the average daily caloric intake per consumption unit or adult man value of a group of poor villagers in South India was 1,700 and that of poor families in a Madras suburb 1,800. A reasonable estimate of the number of calories required by a man engaged in easy-going agriculture or manual work is 2,500 to 2,600. The average deficit was estimated at 423 calories in each man's daily ration<sup>1</sup> and the situation since then has deteriorated even further. It means that in terms of balanced diet we have hardly any food for nearly 15 to 20 per cent. of our present population and that too when the total area under foodgrains has been estimated to have increased from 166 million acres in 1939-40 to 185 million acres in 1947-48. It also shows that the present methods of land cultivation have begun to show exhaustion. In the face of all this, very little if anything is being done to step up our agricultural production in the short-run. There is at least no evidence of a real drive in that direction by a long shot.

<sup>1</sup> Quoted from *Food Planning for Four Hundred Millions*, by Dr. R. K. Mukerjee, page 256.

## CHAPTER XIII

### *SOLUTION OF THE CRISIS*

#### *COMPREHENSIVE, BOLD AND DARING INDUSTRIAL POLICY*

THE first pre-requisite to the solution of our present-day production crisis is an honest appreciation of the gravity and seriousness of the crisis. The last year and a half has registered a definite amount of political advance but it has also seen the aggravation of the chaos in the economic field. The problem today is not merely to curb the inflationary spiral but also to restore the economic equilibrium and to bring back to health our productive system.

The realisation of this grim reality has to be brought home to every section of our population and in this the national leaders will have a very big role to play. A great deal of effort will be necessary to create that consciousness and to arouse the determination to fight the production battle. Looking at the colossal amount of work, it will probably require more energies and sacrifices than were necessary to organise the national movement.

It requires what one might say, a psychological revolution that will dispel the current feeling of frustration and despondency and will attempt to put before the people a resolute course of action in the present emergency. It is this change of outlook that is most needed today. We have to shed the sense of complacency, nor to revel in the glory of past achievements and face the stark reality that without economic well-being political freedom has very little meaning. If Britain is able to make the effort for recovery today it is only because this grim realisation

has dawned upon her people and they have begun to see for themselves that their only hope of salvation lies in hard and unremitting work on the long road ahead. There are signs of a rude awakening here but the public has got to be taken into confidence and clearly told that the dawn of political emancipation marks the beginning of their endeavours and not the end of their hard struggle and that there is still a difficult road to climb to achieve the real fruits of freedom.

It will be necessary under the circumstances to declare a state of economic emergency and to deal with economic problems on a basis of war-time footing. There can be no half-way house, for the situation has already deteriorated far too much. Half-hearted measures will be worse than no solution and will hardly inspire the confidence that is the need of the hour. The current situation has been characterised as a "Crisis in Confidence" and the first step therefore, is to clear the horizon of this creeping paralysis.

### *EMERGENCY ECONOMIC COUNCIL*

This will require the setting up of an Emergency Economic Council vested with special powers in economic matters to evolve and formulate a plan of action and have the necessary authority for its co-ordination and implementation. Such a suggestion may sound as smacking of dictatorial bias and as a basic negation of social democracy but if it is recognised that the present economic crisis is not a mere economic maladjustment or a temporary phase in our transition economy, there will be need of no such fear. After all, the present administration is a popular Government and if it seeks to take stern measures in political and military matters there is no reason why it should be deterred from pursuing a strong economic policy. To countenance the fear of too sweeping executive action would be to minimise the emergency.

We have seen that Britain's efforts in the first two years after the conclusion of the war were considerably

behind those that were needed and it became necessary to arm Sir Stafford Cripps with vast powers in the economic sphere. Since then, her effort for recovery has been marked with a much greater degree of success and the position of her balance of payments reflects the improvement. Britain is by no means out of the economic woods but there is certainly evidence of her strong determination to fight the battle. This development did not mean that political democracy went into oblivion or that a dictatorship has replaced it.

While there is no doubt that the calling of conferences, meetings, etc., can help in the formulation of public policy, there must be a permanent machinery to take stock of the fast changing situation. The need is all the more in view of the grave developments in China, and South-East Asia. Economic matters today have assumed such an importance that mere tinkering with issues cannot be expected to overcome present difficulties.

The measures taken to tide over this crisis will have even more to commend themselves for they will not be directed to the prosecution of a real war which implies destruction. These measures will be designed to defeat the monster of economic poverty that stalks our land and to bring within the reach of the common man at least some fruits of the big change that has come in the last 1,000 years in our long and chequered political career.

This will mark as the first step to increasing our physical production of goods and commodities which is the only effective answer to the economic problems facing us today.

### ***FORMULATION AND ENUNCIATION OF A BOLD AND DARING INDUSTRIAL POLICY***

The Government must formulate and enunciate a very bold and daring industrial policy laid down in a clear and well-defined manner so that there may be no misapprehensions in the public mind.

This policy should embody in unequivocal terms the Government's attitude towards the starting and development of basic industries such as automobiles, shipbuilding, machine tools, capital goods, fertilisers, heavy chemicals, etc., etc.

We find that practically every important industrial country has had to give very definite encouragement for a good number of years to new units of production, in order to offset the advantages of those who are in a more favourably placed position and to enable the national industry to stand on its own feet.

In the case of the development of the automobile industry we find that in countries, like France and Italy which have developed fair sized automobile production—the State has not only helped the industry through high tariff walls but also through more direct encouragement and patronage. It has been estimated that more than half of the Government needs of transport vehicles, carriers, vans, lorries, trucks have flowed in from these national industrial units. These large purchases on behalf of the Government and the other public bodies and semi-government institutions have assured the prospective producer of a fair sized market and this has enabled him to push forward his schemes of further development much more speedily. We find that even in the case of the registration of taxi-cabs and public hire vehicles the National Governments have laid down that a certain fixed percentage which is well over half must be the nation's product. In London, for example every taxi-cab is required to conform to certain specifications and this means that foreign made taxi-cabs cannot just operate—they are thus completely excluded from plying the busy taxi traffic of the city of London. In these countries the registration of foreign made vehicles as taxis is very difficult. In the United States, you will hardly ever notice a taxi-cab that is not a product of the States itself. Even in pre-war Germany there was very definite State encouragement leading to large-scale popularisation of the national products. It is measures like these that have led

to the phenomenal growth of automobile production in the West. Today, the United States produces nearly 5 million cars a year.

In India, the present stage is only one of assembly in respect of cars and there are a number of assembly plants in operation—though mostly concentrated in Bombay and Western India. Attempts are, however, afoot to expand assembly plants in Calcutta and Madras too. Some of these have been in existence for a number of years while others owe their origin to the post-war period. It is hoped that in a few years time this country will be in a position to manufacture most of the parts and also the engines and the chassis. Body building has gone on in this country for quite some time. At present the Government does encourage the import of chassis, engines and parts as against assembled cars from abroad in order to encourage assembly and the employment of more Indian labour.

The import duties have also been adjusted in such a manner that assembled cars coming from overseas have to bear a higher percentage. There are also monetary ceilings and cars above a certain price range are usually not permitted to be imported from hard currency countries like U. S. A. This policy is good as far as it goes but in its essential character it must be termed as mild.

If development work was to proceed on this basis it would take a much longer period of time to attain positive results. What is required is a much more courageous policy—patterned somewhat after the far-sighted policy of the Western producers. In other words, if our Government was to make a definite stipulation with regard to its needs and in registration of public hire vehicles that it would buy a certain fixed or minimum percentage from units that are definitely proceeding with their projects of ultimate manufacture—the tempo could be much more accelerated and prove far more helpful. No doubt the existence of tariff and monetary ceilings would militate against other offers at cheaper prices, but here there must be a certain measure of

preference shown to those who are sinking their capital and taking the initiative to make this country self-sufficient in such an important item of modern transportation.

Our policy has, therefore, got to be much more realistic and daring if the necessary incentive for national enterprise is to come forth in the measure that is demanded of the situation.

Besides, the Government must also give top priorities in matter of raw material supplies to expedite and complete the erection of these plants so that increased production may become the order of the day. Foreign exchange will also have to be granted within the limitations of our slender resources. The history of advanced industrial countries clearly reveals that without active State help and even subsidisation it is not possible in present times to speed up the tempo of building an efficient and large merchant marine and navy. The United States merchant marine and navy has been built up largely as a result of active State subsidisation. If one were to compare the relative price cost in pre-war years the British and Continental liners were less expensive yet the U. S. A. was able to build up the largest naval force in the world even exceeding that of the British. In the case of Japan we find much the same story and the Japanese steamship lines had very close alliance with the Imperial Government.

If the British and to some extent the Dutch have been able to do without State subsidies in modern times that is because they got a very early lead in this field and they enjoy the advantages of a long experience in shipbuilding and plying of trade vessels.

We cannot expect that our new industrial units will be able to meet the stiff competition that is now developing from their much older and experienced counterparts of the West. If, we are going to come into our own—and that not at a very distant date—we will have to pay the price in the interim period and there may even be cases when national units will become a charge on the Public Exchequer.

Efficiency will have to be developed if they are not going to be made a permanent charge.

In the last one year there has been an effort, no doubt, to substantially increase the total tonnage of the Indian Mercantile Marine from nearly  $1\frac{1}{2}$  to 3 lakh tons, and to construct a few medium sized steamers of 8,000 tons such as *Jala Usha*, *Jal Azad*, *Jal Jawahar*, *Jala Prabha*. These efforts are good as far as they go but there is certainly room for doing more to speed up the development.

We find that even today our share of the coastal trade is a bare 25 per cent. and in respect of world trade it is not even one-quarter of one per cent. In terms of India's foreign trade which has been estimated at over 800 crores of rupees in 1948 our share does not exceed 2 per cent. These are the figures in face of the situation that India was considered as the eighth most important industrial country of the world after World War I and the *Encyclopædia Britannica* put her fifth among the leading trading nations of the world.

We have been importing nearly  $2\frac{1}{2}$  million tons of food-grains annually and entering into bilateral trade agreements covering our barter purchases against hessian cloth with Argentine and tea with U. S. S. R. and if we could carry a large part of this in our own carriers—the result will be a further incentive to our merchant marine development. Some of the Government spokesmen might argue that there is the bottleneck of availability of ships from abroad and superimposed upon it the shortage of dollars. There is no doubt that our dependence on foreign suppliers is a very serious bottleneck. A number of liberty ships have been purchased and they are quite old—belonging to the class of steamers built during the latter years of World War II—and expensive. They take on an average much longer in completing their voyages than competing lines. But there is no use of just being despondent. Every possible avenue of supply must be tapped up. Britain's shipbuilding programme is well-nigh nearing completion and as the boom

shows increasing signs of exhaustion the deliveries are becoming faster.

The Scandinavian Countries and the Low Countries are almost fast completing their schedules and better able to deliver ships now. They have no doubt to restore their own naval and merchant marine losses sustained during the war but there is increasing evidence of some supplies being made available. The possibility would be worth exploring. Further, every effort should be made to accelerate our own shipbuilding industry by treating it on an emergency basis and making the necessary allocations of raw materials, particularly steel through better organised imports and improved transport.

There is no doubt that competition is bound to develop more and more in the shipping field and signs are not wanting in that direction. A regular freight war is already in progress at present but Government must see that at least 75 per cent. of our coastal trade is carried in our own vessels, through legislation. Even, in foreign trade increasing use in implementing bilateral trade pacts will materially help the situation—and may become an adjunct of our defensive strategy in view of our vast coastline stretching from the Arabian Sea to the Bay of Bengal and the Indian Ocean.

Similarly, in the field of machine tools, rolling-stock, locomotives, power, capital goods and heavy chemicals there will have to be very active State help and it is clear beyond the pale of doubt that these vital key industries will have to be exempt from direct and heavy taxation during an initial period of 5 years and liberal allowances for depreciation, wear and tear, obsolescence will have to be made and adequate financial reserves will also have to be built up to withstand foreign competition in the long run. Government policy is showing signs of a move in this direction but so far it has remained very mild and uninspiring. It has got to become very bold and courageous to create the necessary confidence and bring into foreplay the forces of initiative and adventure.

## FUTURE TARIFF POLICY

The long years of war and the consequent dislocating of economies thereafter eclipsed the problem of Tariffs. There was no doubt much greater destruction at the end of this war than after World War I and it was natural that the period of economic reconstruction should be much longer.

While competition has not assumed such serious proportions in the field of heavy goods there are enough indications to show that it is increasing over a broad field of consumer goods and even in respect of some items of machinery, tools and chemicals. The question of tariff protection naturally looms on the horizon as the sellers market draws to an end in the world and every country makes a bid to push up its exports.

We have already analysed the existence of a widespread fear of disastrous Japanese competition in textiles and also from certain continental countries particularly, Italy. The Government must lay down its future tariff policy in clear and no uncertain terms. A mere platitudinous statement that the national industries will be safeguarded through the mechanism of tariff is not likely to calm down the fears of the *entrepreneur* who will be called upon to shoulder the burden. The Government must guarantee that such nefarious competition will not be allowed to develop to the detriment and ruin of our established consumer goods industries. The Government, of course must see that these units are run efficiently and the consumer is not made to pay unreasonable prices. If the formulation of a well co-ordinated tariff policy may take some time, the Government must make use of other protective measures such as monetary ceilings, rigid import controls, embargoes, and this will necessitate the revision of our liberal import policy of open general license which is already working havoc in trade and industry.

The future tariff policy must be aimed at maintaining the existing consumer goods industries at an efficient level and to stimulate the development of key industries. The

precise formula should be laid down under which industries will be able to qualify for grant of protection. What is most needed is the creation of a sense of confidence in the country's tariff walls and other protective measures to check the rot of demoralisation.

Happily the problem has not become so acute yet but no time should be lost to take the trade and industry into close confidence and revise the present import policy in such a manner as not only to make the best possible use of foreign exchange but to eliminate the dangers of uneconomic competition. In this case the approach of fighting inflation mainly through increased imports of all kinds will need modification as it may impair the future confidence so much as to destroy all faith in fresh enterprise.

The rayon and art silk industry in this country is likely to need protection from Continental and Japanese competition in the very near future. The estimated requirements of our domestic economy are put at around 300 million yards and as India is making a late start in the field her units naturally require protection in the initial stages. The costs are all the more higher for units being established now and the prices of raw materials and overhead are also likely to be so. In this period such industries will have to be assured of protection if their development is desired from a national standpoint. In the next few years, capital goods and machinery may be even made exempt from customs duty as they will tend to raise productivity which should offset the loss of customs revenue in these items and the tariff policies will have to be reviewed from time to time in the light of changing conditions and in accordance with the best interests of our expansionist economy.

### *PRODUCTION TARGETS FOR INDUSTRIES*

The Government should fix production targets for each industry in the light of present conditions. The actual performance of the various industries should be judged in relation to these target figures and cases should be investi-

gated where targets could not be attained. A detailed analysis of the factors responsible for lower production will enable the Government authorities to go to the root of the problem and the future production targets can be adjusted accordingly.

Sir Homi Mody recently remarked, while addressing the annual general meeting of the Associated Cement Co., Ltd., that the current off-take of cement was only 70 per cent. of the existing capacity and was the lowest recorded in last 10 years. The main difficulty in the way of utilising the existing installed capacity, according to Sir Homi, was the bottleneck of transport. In the field of iron and steel we are currently producing only  $8\frac{1}{2}$  lakh tons annually as compared to our installed capacity of  $12\frac{1}{2}$  lakh tons. In matter of coal production the dispatches are only 22.3 million tons as against a normal average of 29 million tons. These three items are basic to the recovery of our industrial production and the two main factors holding up recovery in this field are transport and labour troubles.

### *TRANSPORT IMPROVEMENTS*

It is true that our railroad system has been suffering from the effects of war and lately the Partition but the existing efficiency of transport facilities can be improved if energetic steps are taken and a return to the war-time basis of allocations is rapidly made. The present system of Railway priorities granted by the Regional Controllers of Railway priorities suffers from the great drawback that the priorities are issued very late in the first instance and secondly even the grant of these priorities does not imply that the empty wagons will be necessarily released by the Railway administration. One asks as to why such priorities are issued at all. They mean so much waste of effort and energy and in the end cause so much trade dislocation. The holder of goods is left in a state of suspended animation and in expectancy. It only shows that there is no co-ordination in such matters at all. During the war our railroads were

able to carry 102 million tons of goods traffic while they are currently carrying only 92 million tons on the old basis. Though it may be difficult to reach the war-time peak in view of the difficulties of obtaining rolling-stock and locomotives in the near future, further steps to co-ordinate and rationalise can help matters. A return to the strict war-time controls and efficiency is the keystone of normal restoration.

It has been estimated that the railway workshops, where most of the overhauling and repairs are done in respect of rolling-stock, the efficiency is only 50 per cent. of the normal level and this certainly shows a serious deterioration. An enquiry into the causes of this inefficiency and a determined drive to root them out may help to raise the level. These are improvements which can be effected within the present framework and are problems of an administrative nature capable of satisfactory solution.

The long-term solution, without doubt, would lie in replacing the worn-out and obsolete locomotives and rolling stock and considerable additions to the present stocks. Indigenous manufacture of locomotives was being planned and pushed through the engineering workshop at Kanchrapara in conjunction with the Tatas. Hardly any signs of progress made in the direction are visible. If, it has been due to shortage of steel or technical personnel what steps are being taken to retrieve the situation now? Large orders have been placed with Canadian, United States and United Kingdom manufacturers of locomotives and railway equipment and in the coming years they will cause a very heavy drain on our hard-pressed foreign exchange resources. In this interim period the sacrifice may be inevitable but steps must be taken to meet our long-term needs through domestic manufacture by entering into necessary arrangements with foreign manufacturers and making necessary supplies of raw materials available. All such measures will require topmost priority and a ceaseless endeavour to reach the targets. That is why the spirit of a real economic battle is necessary to create the basis for a real production drive.

In this country, very little thought has been paid to the development of inland water transportation which is much cheaper than railroad transportation. In the United States, most of the iron ore and coal required for the huge iron and steel industry is transported across water and that is why production costs are so much lower and the burden on the railroads is thereby much reduced. Normally, a substantial percentage of our raw jute supplies came through by way of waterways but lately there has been a much greater pressure to send it by rail. By developing an efficient and cheap coastal trade the load on the railways can be reduced and the inland, waterways must also be more fully made use of. Both the Government and trade can help in organising this adjunct for it will be very beneficial to the growth of national economy.

Another method to relieve the long-term pressure on railroads would be the development of highways and a network of first-class roadways. It was these highways that enabled Germany to build her economic structure so well and even in U. S. A. their importance is far-reaching. This can of course be facilitated by the rapid development of domestic automobile and power alcohol industries and will correct the undue pressure on railroads and make our transport much healthier and more economical.

### *ATTITUDE TOWARDS LABOUR*

The other most important bottleneck that has stood in the way of maintaining production schedules has been the persistent labour attitude of demanding more pay for less work. This problem is by no means confined to this country alone but the seriousness of the situation here makes the position very delicate and we have already seen that absenteeism and labour strikes have increased so phenomenally that in one year alone more man-days were lost than in the course of the long war years.

The Government will have to give up its present policy of wavering and appeasement which is leading to disaster.

The ballot of the Railwaymen's Federation and the Postal Employees clearly shows that continued appeasement is not going to halt labour demands at any level. The first pre-requisite would be to use special emergency powers as during the war. Reckless and sporadic strikes should be completely banned and threats of strikes in other important economic fields should be dealt with sternly. Until and unless the Government authorities do not wake up to face the situation realistically and take stern measures there can be no discipline in labour ranks. Unfortunately, the past experience tends to confirm it. This is all the more necessary in a country like ours where the average labourer is not educated himself to realise his responsibility or to weigh the consequences of lockouts on national production or his own long-term welfare.

So far the Government has only made appeals for labour co-operation and we have seen the result. Such appeals are no doubt motivated by a high sense of moral values but in the context of day to day behaviour the voicing of such sentiments is not likely to bring forth the sense of responsibility and discipline.

Government must make its policy plain and clear in unmistakable terms that it stands to increase production at all costs and that any attempts to retard the same would be considered as anti-social or even anti-national. This does not mean that Government should crush the labour organisations or seek to impose a sort of regimentation. Some of the labour leaders might argue that such a drastic course would be tantamount to such an eventuality. The question is whether the labour leaders are willing to assume the responsibility for maintaining and increasing production. The signs do not show anything of the kind thus far. During a period of national emergency such as exists presently stern measures are not only justifiable but the absolute need of the hour.

While the Government is conscious that labour must get a fair deal for its endeavours it must also be willing to

enforce the sense of responsibility among them. Some of the labour leaders who have shown scant regard for national interests in terms of production will have to be severely dealt with and even exemplary punishment may have to be meted out to them in order to bring home the lessons to other recalcitrant groups who are more likely to exploit the situation and the present discontent to their own advantage than promote real labour and national interests.

### *CEILING ON WAGES*

The most potent cause of persistent labour agitation for higher and higher wages has been the spiralling rise in the cost of living. The first move necessary is to control further rises in cost of living through strictest economic controls over articles of mass consumption like food, housing and clothing and to be able to fix a ceiling on wages. It must be clearly remembered that ceiling will have no meaning if the prices of food continue to rise every time. The effect of such a ceiling on wages will be to enable industry to determine what its labour costs will be in the course of production. Today, managements are unable to forecast with any sense of certainty what the Wage Bill is likely to be and they cannot plan their production on a scientific basis. There is a limit to which increased labour wages can be passed on to the consumer. The consumer today is already withering under the economic stress and his effective buying power is much reduced outside the sphere of the most barely needed consumption articles, and therefore, his capacity to bear further rises is severely limited. It is true that in the beginning the wages tend to lag behind profits. That has been the universal theme. That stage existed in India in 1941-43 but since then the course of events have changed the situation materially.

### *CEILING ON PROFITS*

In view of the national emergency the business community must come forward to bear its share of responsibility.

This will imply that the huge profits to which they have been accustomed in the past years may have to be scaled down. The business units will have to be content with a small remunerative return in their own enlightened self-interest. Such a gesture on the part of industrialists would go a long way to create a healthy feeling in the public mind. The Government Ordinance on the limitations of dividends is a very welcome step. The price controls must be administered in such a manner that a small remunerative return of 6 to 10 per cent. is possible. This will safeguard against the evils of profiteering that have been rampant of late and at the same time guarantee to the industries a fair margin of profit.

### *ABANDON PROFIT-SHARING*

The Government must also abandon such schemes as profit-sharing which are more idealistic than practicable in our present circumstances. Labour spokesmen are not willing to shoulder the responsibilities of a share in the actual management nor are they willing even to give a constructive lead to labour in matters of education, savings and responsibility and, to expect, therefore, that such schemes will act as an incentive is far from the truth. If any, such schemes are likely to do more harm than good. The idea is noble and has a moral inspiration but there are obvious circumstantial limitations to it.

We have also observed that the Government has been over-zealous in the appointment of wage tribunals in cases where disputes have arisen and the awards of some of these adjudications are spelling the long-term disaster of the industrial units who have been their unfortunate victims. The Government must clearly issue a directive to any such tribunal that the increases recommended have got to bear relation with the capacity of the industry and the consumer to absorb the additional burden. Such experiments in the economic fields will do untold violence to the workers and the industry in the long run, when the consumer is just not

able to be squeezed and milked any more. In other words, there must be a sense of economic realism rather than a mere motivation for ideal ends.

The Government's anxiety to gain more labour support is clearly perceptible, but it will not be doing labour any justice if the basic causes of labour unrest are not removed. The truth is that far too sweeping promises seem to have been made to labour and their spokesmen without reference to the current difficulties. The Government must be bold enough to tell plainly that the only way out is through increased production and labour's ultimate welfare is inseparably linked up with it. In other words, the goals aimed at for promoting labour welfare will have to be quite modest and far more in keeping with the economic resources and needs of the country. The danger of attempting to do things too fast is plain and clear. Mere pious wishes have nowhere improved the situation.

The Government must also increase its efforts in the eradication of adult illiteracy. During the years of Provincial Autonomy much useful work was done in this direction and there is room for much more work in this field. Savings and the habit of thrift will also have to be emphasised if labour is to rise to its full and proper stature and to play the great role which is its birthright.

### *TAXATION POLICY*

The taxation policy of a nation is inseparably linked up with its programme of industrial development. The inter-relation is so close that rapid industrial development in the present economic framework is not possible if the taxation policies tend to destroy the incentive and limit the scope for adventure.

The history of economic development of advanced countries is a proof positive of the fact that reasonable levels of taxation are most conducive to rapid economic progress. During the latter part of the eighteenth and the nineteenth centuries, Britain experienced colossal industrial development

and this was primarily because the rates of direct taxation remained fairly low. In Germany also it was the low level of taxation that encouraged rapid industrialisation. United States and Japan have had a similar experience. There is no doubt that in those early periods the amount of public expenditure was low and the need for revenues was also not so great. Today, the sphere of State activity has so advanced that public expenditure stands at levels which sounded incredible not long ago.

But the fact remains that the increased amount to defray this huge rise in public expenditure can only come through increased production. Therefore, if taxation policies tend to act as a serious damper on production they have to be revised or adjusted. The criterion is an increasing level of physical production of goods and services. If production remains low the taxable capacity is bound to remain very low and ultimately the limits of taxation are determined by the taxable capacity of a nation. Our future taxation policy must therefore, be patterned to our need for rapid industrial growth. We have already seen that the industry and trade have been subjected to a burden of such high direct taxation that there has been a complete absence of savings, investment activity and capital formation. It clearly shows that the limits of direct taxation have been overstepped. Therefore, some relief in direct taxation will be necessary to bring into play the normal forces of enterprise and equity financing.

It may be interesting to recall in this connection the views of the Chairman of the Chase National Bank of the City of New York, one of the world's leading banks and not long ago the biggest bank in the world :—

“ Retained business earnings as a source of funds for capital formation are of such importance, that, in my opinion, if it can possibly be avoided, the Government should refrain from increases in corporate income-tax rates and from the adoption of an excess profit tax. In depriving corporations of funds which, since the end of

the war, have financed the bulk of business capital formation and in forcing corporations deeper into debt to finance their requirements, increased corporate taxes are bound to have a damaging effect on the economy.

“An excess profits tax in particular, is discriminatory, capricious and arbitrary in its effects. It encourages wasteful expenditure, penalises initiative and enterprise, and discourages new ventures. By its very nature, it is extremely complex and difficult to administer. In a peace economy, it interferes with the function of profits, which is that of guiding the flow of investment.”

Our industries are particularly lacking in modernisation and liberal allowance will be necessary for this purpose so as to raise the general standard of efficiency and production. It will necessarily mean the exemption of basic industries from direct taxation for a period of 5 years and reasonable allowances for depreciation, obsolescence and scientific research for existing units. The depreciation allowance must also take into account the inflationary situation through which we are passing. If it reflects merely on the basis of the original cost it may be quite unrealistic. The practice is quite sound in a period of relative price stability as in 1934-39 but in a period like the present, higher depreciation allowances are all the more necessary until such time that capital goods are available more freely and at more reasonable levels. While it may be difficult to adjust the administration of law to suit the temporary phase in our economy, the need has to be much more fully appreciated and the individual cases for greater relief should be given better consideration.

The limit of tax exemption should be raised to Rs. 4,000. The lower limit stood at Rs. 1,000 in the depression years and since then the average price level has shot up over four times. The rupee today has a value of not more than four annas in terms of pre-war purchasing power. This relief will be necessary to the middle classes who have been hit most in the recent inflation. They will have to be afforded

some relief in taxes and also through lower prices in the long run.

The labours of the Tax Investigating Commission should be confined to very large cases only, where there is *prima facie* ground for suspecting manipulation of accounts, tax evasion, black-marketing and similar malpractices. The powers vested should be used with much discretion, otherwise business confidence will not recover and may be seriously impaired for a considerable time. The guiding principle of the Tax Investigating Commission should be to view the problem from a forward-looking attitude—that is to say that they must not approach the problem from a spirit of vengeance but should attempt that its future recurrence may be completely obviated. In the language of jurisprudence the approach has to be reformatory rather than retributive. The reformatory approach looks much more to the future welfare while the retributive is based solely on past actions. If the tax authorities have a deep regard for the future they must accept the reformatory viewpoint and the thing to do would be to cause the minimum of harassment and undue panic in the business world. The machinery of tax collection and tax assessment must of course, be strengthened and made much more vigilant and there should be deterrent measures to root out tax evasion. At the same time the business community has to realise its national responsibility and to defeat the crisis of character in public conduct.

The Business Profits Tax (which was introduced by Mr. Liaquat Ali Khan when he was Finance Minister in 1947) has also been regressive and though it was reduced from 25 to 10 per cent. in the last Budget it should be entirely removed. There is considerable difficulty even in the matter of assessment of this tax owing to the inadequacy of the present administrative machinery. It may be argued that the tax reductions made in the last Budget did not bring about a phenomenal rise in production but it must not be forgotten that tax reductions have also to be

accompanied by a bold and clear-cut economic policy. If tax reductions are not accompanied by suitable measures, they lose their force. The present plea is in view of the seriousness of the situation arising from a complete paralysis of enterprise and fresh investments.

With regard to the Capital Gains Tax, the United States is about the only country that practises it. The machinery of tax collection both at source and otherwise is so perfect in that country that we have hardly made a beginning in that direction. The British are considered the most heavily taxed nation in the world, yet they have refrained from experimenting with such measures. They do not consider gains arising from the sale of capital assets as an income, unless transactions of such assets constitute the regular trade of the taxpayer. The elimination of capital gains tax tends to encourage the pool of risk capital and makes for greater liquidity and greater stability in the revenues over a period of time. In India, even the concessions granted in the United States in the administration of the above tax are non-existent and in our present need of stimulating production it should be abandoned.

The question may be naturally asked that these tax concessions will reduce the revenues of the Government at a time when the Government needs every penny that it can lay its hands on. The answer to this lies in that we are in the midst of a vicious circle and the only way to break it is to increase production and to tap alternative sources of revenues some of which are suggested below.

### *INCOME-TAX ON AGRICULTURAL INCOMES*

We have already seen that agricultural prices have advanced more appreciably than any other commodity in recent years. In the case of peasants and landholders owning more than a few acres of land the continued rise in prices has greatly increased their incomes. The introduction of agricultural income-tax all over the country is most necessary and suitable machinery for its collection and

enforcement should be created immediately. In view of the current crisis every section of the populace must be willing to make the sacrifices in the interests of the nation. This argument is all the more reinforced by the fact that 57.3 per cent. of our National Incomes comes from this source and the percentage has increased substantially. It would, therefore, be most appropriate and will also help to mop up some of the idle savings, thus reducing the inflationary pressure.

Our land tenure system suffers from the evils of permanent settlement and in areas where this system is in vogue, the land revenue has been fixed at very nominal levels. It has been estimated that nearly half of our land belongs to this class. The low levels fixed do not bear any relation to the great prosperity that has come about through spiralling prices. The land revenue should, therefore, be increased through the levy of a graduated surcharge and this will also help to redress the disequilibrium created through imposition of greater burdens on the non-agricultural sections in last few years. One healthy pointer has reflected itself in the shifting of emphasis from direct to indirect taxation. This seems evident from the recent imposition of enhanced import duties on tobacco, alcoholic spirits, art-silk and silk-piecegoods, motor cars and luxury items, etc. The burden of the new duties will fall upon a relatively small section of the population and its payment will not cause so much resentment as it will represent only a small addition at the time of purchase. The special conditions of India's social structure and wide economic disparities are most conducive to a shift in the incidence of taxation. The limits of direct taxation have already been passed and in future the course of taxation policy will have to be more in the direction of indirect burdens.

The Government should also rush through the Death Duties Bill as the measure has been long overdue and will be a step in the right direction by mitigating the evils of a society based on birth and inheritance of wealth. This

measure has long been in force in the advanced countries of the West. The machinery for its proper administration should be created forthwith.

### *THE ISSUE OF NATIONALISATION*

The problem should be squarely faced and there should be a departure from the platitudinous statements that are being voiced so often on the subject. The issue has to be considered from the standpoint of realism and hard facts and not wishful thinking.

A period of 10 years has been proposed after which the question will be reviewed. The facts are that it requires at least a few years to start and lay the foundations of a new industrial unit. If the Government contemplates to take over the units just when they will be in a position to afford profit possibilities, there will be no incentive for the *entrepreneur* to get them started.

A period of 10 years is too short and far too unrealistic. It requires a longer period of time to develop key industries as compared to consumer goods industries and no one is likely to sink colossal amounts of capital and enterprising ability if at the end of these hard labours there is no hope of an adequate return. Such statements are tending to restrain rather than to accelerate industrialisation.

Before the Government should embark on a programme of nationalisation it must allow private enterprise a real chance to prove its worth. To pass judgment on the record of past two years and a half would be absolutely rash. Realistically speaking, the chance for national enterprise should come now. Instead of feeling to muster their support the Government pronouncements are making them lukewarm and suspicious.

What really matters in today's context is the standard of efficiency in operations and the safeguarding of the consumer interests. If the consumer can be served cheaper and better under private enterprise there is no validity for a mere change in ownership. The Government must lay

Rapid strides are being made to instal more sugar mills in West Bengal, Assam, Madras and other parts of India and the Government instead of putting a brake to such unhealthy growth is giving them all the necessary facilities. These must be immediately stopped if disaster has to be avoided.

Such projects may have the merit of decentralisation to commend themselves but under present conditions the very future of organised units is at stake and national economic interests should override the provincial demand for increasing self-sufficiency.

The biggest headache of the industry is the very high cost of sugar that prevails in spite of very heavy stocks and plentiful production. The industry must seek to bring down the production costs through increasing use of methods of rationalisation and efficient management. There is much scope for improvement in this direction and if managements will realise the danger that is ahead of the industry there may yet be time to rescue it from going to the rocks. The sugar mills must also try to develop ancillary or subsidiary industries so as to reduce the production costs on sugar. The development of power alcohol from sugar molasses has long been urged but so far very little progress has been registered. The time has come when something has got to be done very quickly and on a well-organised scale. India is presently suffering from a shortage of petrol and power alcohol can help to relieve the shortage and thereby improve the transport situation as well. As the sugar industry is very vital in our economy, the Government must also not take a complacent view of the situation. The Government must foster further research so as to find out other feasible methods of reducing costs.

The principal reason of high sugar costs in this country is the low yield of cane. There was an intensive effort made to distribute improved varieties but this has failed to increase the *per capita* output owing to inadequacy of proper manure and lack of irrigation facilities in the measure required. The Government must therefore, take immediate steps to

arrange proper distribution of manure and over the long run it can also increase the irrigation facilities. Intensive cultivation will reduce the pressure and make for greater output. It will require a much more energetic effort on the part of the Agricultural Department than has so far marked its activities. Alongside, the Government should also take steps to more adequately control the pests and diseases.

• The present production rate of  $10\frac{1}{2}$  to 11 lakhs tons annually is substantially in excess of our domestic requirements. Therefore the Government should discourage the peasants from sugar-cane cultivation and exhort them to produce more foodgrains. The most effective mechanism would be the price factor. Last year the grower received Rs. 2 per maund for his cane and this was the highest recorded in the history of the sugar industry. This price should be reduced substantially to reduce the incentive for the grower to plant sugar-cane. This year there is a heavy carry-over of stocks and we can very well afford to have more foodgrains in face of excess sugar that we do not know what to do with.

The future of the sugar industry is linked up very closely with its capacity to export in the future. In the past, the territories now called Pakistan formed a good consuming outlet but now there is no Customs Union and unless our prices can stand foreign competition we shall not be able to sell our surplus abroad. The Government has removed all restrictions on export of sugar but is it enough? Does the Government think that foreign buyers will be lured to buy our sugar even though it is nearly twice as costly? Other countries have no love for our products unless they can be sold cheap enough to attract foreign consumers. The Government must therefore, be not content with such half-measures. It has got to adopt a much more realistic policy of bringing down the export prices.

We have seen that countries like Great Britain are able to make a success of their export drive only through Government support, drive and legislation. The Government

down a certain, well-defined criterion as a yardstick to determine as to when an industrial unit should be nationalised. If the unit has been working in an inefficient manner over a long period of time and shows no regard for public interest a note of warning should be sounded. It is only after such repeated warnings have been ignored that the extreme remedy of nationalisation should be applied. Some of the Government spokesmen may argue that in respect of several items the units exercise a sort of monopoly control and their social ownership would be in the interests of the community. In today's circumstances, State regulation and control is far more important than mere ownership. Gone are the days when the concerns could do without Government legislation. There is no difficulty for the Government to regulate and control the working of monopoly units in community interests and still retain their character of private ownership.

The Government has laid down that in respect of industries like coal, iron and steel, shipbuilding, aircraft manufacture, mineral oils, telegraph and telephone apparatus the State shall have exclusive right for starting of new ventures. The question is whether the State has got the necessary finances to undertake such huge projects right now when its balances are going down-hill almost uninterruptedly. If the Government finances are so strained and private enterprise is kept out through fear of nationalisation what other body is likely to start these key-units and step up the rate of production? The present policy clearly betrays a lack of understanding of the current limitations.

Secondly, the next most important factor is the machinery of administering such units as will be started or taken over. The running of such vital units requires trained personnel who know the job of administration and efficient business management. The Government has no such machinery at its disposal. Their statement on Industrial Policy says that Government would establish public

corporations to run such industries. Such experimentation at our infant stage of industrialisation is not likely to do the trick. Past experience does not inspire any confidence in such a cure.

Under a policy of price controls and dividend limitations the chances of making anti-social gains are clearly obviated.

The Government should, therefore, revise its policy and the period of 10 years should be increased to at least 25 years or there should be no limit whatsoever. The Government should encourage private enterprise in all sectors of the economy except defense industries, railways, etc. where private enterprise has clearly no advantages.

Agreements with foreign manufacturers regarding the establishment of key industries will be much more easy of negotiation if the nebulous ideology on nationalisation is shelved.

The Government policy in such important matters must not display any sense of haste. The policy has got to be gradual and it will be more in keeping with the needs of the country to make the fullest use of free enterprise even in "Key" industries for years to come. It is only after complete political stability has been achieved and the administrative machinery made much more perfect than it is at present, that the Government may contemplate to enter the industrial field in a big way. Our nationalisation policy has got to be in line with the needs of the transition and cannot be very well divorced from it. The high levels of taxation and popular public opinion are today the most effective checks on the abuse of the free enterprise system and therefore, there need be no great misapprehensions in the future.

### ***PLANNING FOR ENLIGHTENED SUGAR POLICY***

It has been observed that the sugar industry is currently faced with a crisis of not being able to dispose of its stocks. The first move on the part of the Government should be to stop all sugar expansion projects that are still under way.

Rapid strides are being made to instal more sugar mills in West Bengal, Assam, Madras and other parts of India and the Government instead of putting a brake to such unhealthy growth is giving them all the necessary facilities. These must be immediately stopped if disaster has to be avoided.

Such projects may have the merit of decentralisation to commend themselves but under present conditions the very future of organised units is at stake and national economic interests should override the provincial demand for increasing self-sufficiency.

The biggest headache of the industry is the very high cost of sugar that prevails in spite of very heavy stocks and plentiful production. The industry must seek to bring down the production costs through increasing use of methods of rationalisation and efficient management. There is much scope for improvement in this direction and if managements will realise the danger that is ahead of the industry there may yet be time to rescue it from going to the rocks. The sugar mills must also try to develop ancillary or subsidiary industries so as to reduce the production costs on sugar. The development of power alcohol from sugar molasses has long been urged but so far very little progress has been registered. The time has come when something has got to be done very quickly and on a well-organised scale. India is presently suffering from a shortage of petrol and power alcohol can help to relieve the shortage and thereby improve the transport situation as well. As the sugar industry is very vital in our economy, the Government must also not take a complacent view of the situation. The Government must foster further research so as to find out other feasible methods of reducing costs.

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We have seen that countries like Great Britain are able to make a success of their export drive only through Government support, drive and legislation. The Government

should develop a sugar export corporation which should examine the question of devising means of marketing our surplus abroad. It may even be necessary to subsidise such exports if we are to earn foreign exchange. A part of the subsidy cost must be borne by the industry themselves and in the long run the production costs should be brought in line with world price.

### *OPTIMUM CIVIL AVIATION DEVELOPMENT*

All the internal airlines are operating under a system of licensed operations and yet the financial collapse of many airlines is becoming every day more certain. Most of them are operating on provisional licenses and there is widespread misgiving in the matter.

The Government must immediately clear the air by adopting a clear-cut policy and end this phase of uncertainty. The number of companies should be reduced either through mergers or the licenses of a number of them should be cancelled. Permanent licenses should be granted over routes which are remunerative and have proved so in the last two years and a half. The Government should take the various interests involved into confidence by arranging a conference immediately. There must be an end to the disastrous waste that is developing and the uneconomic competition that is likely to arise. Such a development will have a demoralising effect and will leave a permanent scar in this sector of our economy. Two airlines are already in the process of liquidation. There are at present 14,000 miles of routes that are being flown over by the existing airlines and not more than half of these are considered remunerative. That leaves a balance of nearly 7,000 miles.

The Government should eliminate some of the very unremunerative routes altogether. It has been estimated that not more than 3,000 route miles can be operated from the view-point of defensive strategy. The Government is at present hard pressed for funds and in its schemes of

subsidisation this limiting factor will naturally loom large. In case of an airlink with Assam, the strategic factor has got to be taken into consideration. The frontier post cannot be neglected and in the case of such a link even Government subsidisation will be absolutely essential.

## CHAPTER XIV

### *WHAT WILL RAISE AGRICULTURAL PRODUCTIVITY ?*

#### *OPTIMUM USE OF LOCAL VILLAGE RESOURCES*

IN spite of sky-high prices prevailing for agricultural commodities there has been no increase in the physical production of foodgrains in recent years. It is normally assumed that higher prices act as a great incentive for the agriculturist but even this belief has not come true of late. The agricultural economy has obstinately refused to move in the upward direction.

This has been principally due to the fact that the short-term measures for raising the productivity have hardly received the serious concern of the authorities. The "Grow More Food" campaign has not helped the drain of nearly 50 per cent. of our export earnings spent on foreign food imports. The immediate prospects are that next year we may have to spend 250 crores of rupees on buying food which would be roughly 75 per cent. of total exports and a stage will soon be reached when all our exports will hardly suffice to provide the margin of food that this country needs. Such is the situation when more than two-thirds of our population depends solely on agriculture.

Our yields of crop are so low that they compare very unfavourably with that of other Asian countries. Our rice yield per acre is 988 lbs. as compared with 2,433 lbs. in China and in respect of wheat our yield is 811 lbs. as against 989 in China. In matter of improved seeds, only 5 per cent. of our total area is under rice and the percentage is 35 with regard to wheat according to the latest statement of Mr. Jairamdas Daulatram. With regard to irrigation facilities more than three-fourths of our crops still depend

on the unpredictable monsoon and the position has become all the more precarious since the Partition. A large part of the irrigation facilities were located in West Punjab and Sind and especially the loss of canal colonies has made the position more vulnerable. Our agriculture also suffers from lack of proper manure as nearly half of our cow-dung is burnt for purposes of fuel and there has been a great dearth of fertilisers, sulphate of ammonia and other artificial manures.

There are of course a multitude of other reasons that have held up the raising of physical productivity in the past. Indian agriculture has long been characterised as suffering from the twin ills of fragmentation and sub-division of holdings which have made the position so tough that in parts of Bengal the average holding is hardly of an acre. There has also been a great shortage of agricultural implements and particularly healthy bullocks in recent years and the absence of a proper rotation of crops.

While some of these factors when lumped together, may appear as quite formidable of solution—the only way to break the vicious circle is to get to the roots of the problem. The task of an agrarian revolution is indeed quite complex but it should not make way for despondency.

The first pre-requisite for any concerted programme is the realisation that the short-term solution of our agricultural crisis is the biggest challenge to our new State and hard-won freedom. Schemes visualising multi-purpose projects are only a long-term approach and they do not show much grasp of what situation is likely to develop in the next few years. The most critical phase of our economy has been reached and a few years may find us landed into a situation from which it will be very difficult to extricate ourselves.

The village uplift programme was being carried on in a certain measure during our national movement but now even that has very much receded into the background.

Most of the schemes advanced suffer from one great drawback. The approach is made from an individualistic viewpoint. No doubt the individual has a personality worthy of respect but today this sort of approach is more likely to defeat the purpose than promote it.

### *THE COMMUNITY APPROACH TO VILLAGE RECONSTRUCTION:*

The new approach has got to be from a co-operative or village standpoint. We have neither the machinery nor the basis of bringing home to every peasant the seriousness of the problem and in his present state of illiteracy it would be too much to expect of him to make a revolutionary change in his methods overnight. The emphasis has, therefore, got to change in keeping with our immediate needs.

Every village must be made the unit of production and should be allotted a certain production target. In arriving at the figure of production target care must be taken to arrive at a reasonable standard which is capable of attainment under present limitations. We find that in the same village, and on much the same size of land holdings the crop yield of one farmer is much higher than that of the other. Investigating into the causes of such disparities it is often found that one peasant has a better pair of bullocks. In the villages, there is at present a tremendous waste of human and material resources. Besides, our State has got to work under financial and administrative limitations. If the optimum use of local village resources could be made there may be some chance of hope.

Many a scheme of agricultural improvement is evolved in an atmosphere of bureaucratic surroundings and they fail to emphasise this community approach. There must be created an organisation in every village known as the village co-operative and it should be charged with the responsibility of making the utmost use of the existing resources. Where it finds that the implements of one farmer can be used with advantage by another without

dislocating the work of the former it should have the power to distribute such resources in a manner that they may not be wasted in any form or manner. Rent may have to be paid to the owner for the time that his bullocks or implements are used. The Government administrative machinery with the best of intentions will not be in a position to reach every individual farm—which run into tens of millions. The Government must be willing to face this limitation. The only solution to this lies in the sponsoring and creation of local village bodies who will take up the initiative and go ahead with the schemes for more intensive development. The fact that our agricultural resources are also limited under present-day conditions has also got to be more adequately realised. The Government's main function will be to see that these village organisations carry out the responsibilities entrusted to them and that they follow the general plan.

There must be an agricultural plan envisaging the improvements that can be currently made and the local village co-operative shall form as the base of that planning superstructure. The Government will of course have to guide the working of these village bodies and provide them with expert opinion wherever possible.

### *INSTALLATION OF RADIO SETS IN EVERY VILLAGE*

Another factor that will help to materially improve the situation would be the installation of a radio set in every village. It was estimated that the number of villages in undivided India stood around, 7 lakhs. The present number will be over half a million. The installation of a radio in every village would require 5 lakhs of receiving sets. At present the supply position of such items is very easy even in sterling countries and there will be no difficulty in arranging the import in a short period. We have also at our disposal 80 million sterling left over from last year's financial arrangement with Britain on sterling balances. There will be no

financial bottleneck. On an average, a radio set is not likely to cost more than Rs. 200 when purchased in bulk and considerably less. Figuring at Rs. 150 each 5 lakh sets will not cost the Exchequer more than  $7\frac{1}{2}$  crores of rupees.

It is universally recognised that the radio is a very important and useful instrument for disseminating knowledge and in the present stage of education in rural India it has a unique place. We have neither the teachers nor the finance to educate all our peasants in a short span of time. The problem is simply colossal. The radio broadcasts at present feature a 45-minute programme for villagers but that is hardly enough. Moreover, all villages do not have the receiving sets. It is through the means of the radio that the Government can educate the peasants in important agricultural matters—by talks on methods to improve the existing methods of cultivation. They can be supplied with information about market intelligence. It is a common belief in this country that the produce manipulators are able to buy the output of the farmers at a low price and that they reap a rich harvest. This sort of evil can be very much mitigated by a system of regular broadcasting. The broadcasting department should have a special agricultural section to deal with such broadcasts and it is these broadcasts that can create the consciousness of making an effort on the part of our rural populace. If the cost be judged in terms of what it can produce, it will be found that the effort will be absolutely worth making.

### **MULTI-PURPOSE VILLAGE CO-OPERATIVES**

The village co-operative will prepare a chart or shall we say—collect the data of the local village resources. It will then seek to determine their optimum utilisation. In this, the provincial bodies can guide them and whenever possible divert the surplus goods and equipment to areas where they are most needed. The village co-operative will be in strict consonance with the principle of decentralisation and will help to strengthen the democratic basis of our

political order. The experience of the past clearly shows that an agricultural revolution in our economy has got to come from within and unless the energies lying dormant can be utilised with advantage the planning at the top will remain in the blue-print stage.

So far the Government policies of improving cultivable methods have ignored one fundamental factor. Most of our agriculturists are poor and their small holdings are uneconomic. Before the present boom in agricultural prices, the average peasant was steeped in debt to the money-lender. He had hardly enough to pay to the money-lender and the landlord—both of whom fleeced him. The last few years' high prices have led to the liquidation of agricultural indebtedness but the real advantages have only been reaped by the large cultivators. If Government policies are directed from the standpoint of approaching only the farmers who are able to buy better seeds, better manure and implements the purpose will be far from being served. It is these millions of small cultivators who have to be helped in this matter. This can only be done through the village co-operatives whose approach will spring from the community angle rather than that of furthering individual interest.

One of the biggest problems in recent years has been that of procurement. It is true that peasants are offered a small pecuniary incentive at present for larger delivery of foodgrains but that is not enough. A small addition to present high prices is hardly an incentive. What is required is the creation of a social opinion against the habit of hoarding. The village co-operative shall have every peasant as its member. It will fix the individual targets of production and will be required to collect from them the share of produce left after making allowance for family consumption. This will also guarantee a fair price to the cultivator and also result in maximum procurement. It will tend to eliminate the terrific amount of speculation that is rife in these commodities. Such speculation is very unhealthy in a time like this and should be checked to the maximum possible extent.

The village co-operative will be responsible for the warehousing, grading, pooling and processing of the stuff collected and will also be entrusted with the task of organising transport to the extent locally available.

During the transition that the village multi-purpose co-operatives are established all over this country the Government must take certain measures so that no time may be lost in laying the foundations on sound lines.

Firstly, there must be a definite ceiling on individual land-holdings and ownership. The need to eliminate the glaring extremes is obvious and necessary to inspire local confidence. The co-operative farms should not be subjected to this rule. The Government must also reduce the fragmentation and sub-division of land-holdings through legislation. It will be necessary in this case to modify the inheritance laws and pattern them on western models where uneconomic holdings are avoided as far as possible.

Secondly, sub-letting of agricultural land should be made a punishable offence and made as stiff as the Rent Control Act. This sub-letting has resulted in the creation of parasitic elements in our rural economy and these units are not likely to help materially when the village co-operatives are formed on the scale necessary. Unfortunately, the social stratification in our rural areas has not yet become a thing of the past and if the parasitic elements are allowed to capitalise on the situation there will be great danger of reactionary policies from this group. Care must, therefore, be taken to avoid such a possibility and to strengthen the organisation of the actual tillers of the soil. It may also be necessary to legislate against nefarious practices resulting from our large section of landless labourers who are often exploited. While industrial labour has at least the advantage of being organised and have the weapon of strikes and union leadership, the poor and down-trodden landless labourer has nothing to fall back upon. It is this proletariat that has got to be resuscitated in any future programme of comprehensive agrarian reform.

The Government must tighten up the machinery of procurement which has naturally become lax and disorganised in the unfortunate decontrol era and strict measures may have to be taken against hoarders and manipulators. Exemplary punishment should be meted out to these elements. Special powers will have to be vested with the enforcement authorities. This enforcement body must also see that there is widespread use of standard measures and grading practices. The Government will also have to establish local warehouses which will collect the produce and place it at the disposal of the distributing agency and this will reduce the burden on transport and at the same time ensure a scientific distribution of existing production. There can be no denying that a great leeway exists at present in these matters.

Our rural economy has long been termed as sick and unbalanced as it involves such a colossal waste of human energies. The absence of any supplementary occupation is the chief cause. Even if the low yield from the land could be supplemented by a fair return from subsidiary employment the position would be healthier. Mahatma Gandhi fully realised the weakness of the present structure and laid great emphasis on the development of cottage industries. Much useful work was started in this direction but there has been such a slackening of efforts in the past one year that a ceaseless drive is absolutely essential if his spadework is not to be dissipated. For this purpose it will be necessary to have a special department entrusted with this function and this department shall have a host of officers spread all over the rural areas to promote the development of cottage industries. This will incidentally reduce the amount of seasonal unemployment and increase the effective buying power of the poorer sections of the rural communities.

### *IMPORT OF BULLION*

The Indian agriculturist is so fond of keeping his small savings in ornaments that this country has been rightly

called as the sink of bullion in modern times. China is perhaps the only other country where bullion hoards are so popular. The awakening has hardly come among the ranks of the peasants who still regard it as the safest and the best form of investment. Instead of attempting to improve the cultivation methods or raising the material standard of life, the small amount of savings accumulated in a period of rising agricultural prices are utilised in the purchase of silver. The history of the last 60 years of our silver imports bears an eloquent testimony to this fact. Although the average peasant is now familiar with our paper currency his faith in bullion has not diminished by an inch.

Prior to the war India was a large importer of silver. Even in respect of gold she remained a net importer till the 'thirties. It was during the depression that gold began to flow abroad from here. The agricultural crisis was a principal factor. During the war, the British Government made some imports and sold the imported gold at twice the price prevailing in the world markets. It was termed as a deflationary instrument. In the last two years, however, there has been very little import of bullion from abroad though it continues in small quantities through clandestine channels. The present stocks of silver are the lowest in history and stand at less than 5,000 bars. This has resulted in a sharp spurt in bullion prices which have curiously moved in the same upward manner as the agricultural prices. Looking at the index we find that the increases in the two are almost identical. The fact remains that there is a very close inter-relation. The peasant has been finding it increasingly hard to find the bullion at low levels and therefore, he has no incentive to part with his produce at low prices or to increase his physical production. Freed from the shackles of the once powerful but now decadent class of money-lenders and also *zamindars* he has found no other outlet for his cash surplus. Implements have been hard to get and even in respect of consumer goods that he needs the supply position has not been very easy in recent years.

Bullion still remains the biggest attraction for him. The Government should, therefore, import silver to the tune of at least 10 to 15 crores of rupees annually. This will help to satisfy some of the hunger that still exists and it will materially help the authorities in their procurement drives. If the peasant could be offered a small amount of silver, i.e. a few tolas, the chances are that he will be tempted to part with a large percentage of produce than in exchange for paper notes which he deems as not of much value even now. These imports will also act as an incentive for his increasing production. He will at least have some assurance of getting a share of the commodity he wants. The experiment is well worth a trial for a year or two and its results may be studied with care. Instead of spending 150 crores or more it will be better to spend at least 10 to 15 crores out of this on import of silver. There is no doubt that the absence of food imports may create famine conditions but we have got to break through the vicious circle one of these days. We cannot afford to become a permanent food importing country on the present scale unless we wish to go downhill and sink into economic collapse.

The question naturally arises as to where this bullion is going to come from ?

Bullion is currently available in both sterling as well as hard currency areas. Fortunately, our sterling reserves are adequate to permit this experimentation and even in case of dollars it will be worthwhile as it will materially help to reduce our food-imports from the dollar areas eventually.

If the psychology of the peasant is any indication, this move should prove fairly successful. It may also help to restore the confidence by checking the spiralling rise in bullion prices. Lord Keynes described the Indian demand of bullion for its own sake as our passion for liquidity preference.

These may be termed as the short-term remedies to the problem.

In the long run, healthy agricultural development will of necessity require a much larger area to be brought under perennial irrigation. No effective planning is possible if the peasant is just left to the vagaries of nature. The need for adequate irrigation is all the more urgent in the South and Central parts of the Indian Union where the food production is at very low levels.

Soil erosion is another factor that is creating havoc. It rapidly lowers the fertility of the soil, and Nature's work of centuries is completely obliterated. The soil becomes unfit for cultivation as there is no supply of water from the sub-soil. The loosened soils of eroded land are easily carried away by the monsoon due to excessive "run-off." This leads to a steady rise in the bed of rivers and results in disastrous floods sweeping over wide tracts bringing misery and privation to millions. This has also been a constant source of forest destruction. Road side erosion is another cancer that often assumes serious proportions. Complete control of soil erosion is absolutely essential for the development of a healthy agricultural economy. There is considerable scope for extensive cultivation in many parts of India—Assam, the Central Provinces, East Punjab and parts of Southern India. It is true that the best quality of soil has been brought into cultivation owing to the continued pressure on land but there is still much scope if these efforts can be supplemented by proper irrigational facilities indicated earlier.

There are obvious limitations to the use of mechanised methods in our agricultural sphere except in large uncultivated tracts where such methods may be suitable. But over most parts the small size of land-holdings makes the use of modern methods uneconomical. Co-operative farming can help lay the basis. There is also the factor of the love and attachment to the soil which is quite marked in our rural areas and coupled with this is the absence of technical education, and mechanical aptitude among the farmers. The facilities for the repair and maintenance of tractors, bull-dozers, harvesting

machines and other mechanised equipment are conspicuous by their absence. Therefore, our approach will have to be in keeping with these limitations. As our economy becomes more balanced there will be greater possibilities of making use of such methods.

There is no doubt that the long-term solution of our agricultural ills lies in the formation of projects similar to the Tennessee Valley Authority. The Damodar Valley project is being patterned on very much the same basis and it has been estimated that its completion will require 10 years and its cost has been estimated at 55 crores of rupees.

The trend of thought is running in the right direction but the pace has got to be stepped up. The Fontana Dam in the United States took only 3 years to be completed and the urgency of pushing through these schemes is very clear if agricultural collapse is sought to be avoided.

The development of cheap hydro-electric power can facilitate the decentralisation of industries and help to electrify our rural areas. Cottage and small scale industries similar to those developed in Japan and China will be greatly stimulated through such multi-purpose river projects. These will not only control the floods, soil erosion and provide irrigation but also help to resuscitate Nature's beauty.

## CHAPTER XV

### *BUSINESSMAN'S NEW ROLE*

THE businessman in India has so far played a more or less passive role and the predominance of speculative ideology has coloured his thinking. We have seen that our future economy is more or less that of a processing nation and therefore, business in future can only survive on the basis of increased efficiency and a lowering of the costs of production.

It postulates that industry and commerce in this country will have to be organised on a scientific basis and not motivated merely from the desire for short-term quick returns. Our large scale business units will of necessity have to employ modern methods of business management if they wish to survive over a long period of time.

In the nineteenth and early parts of the twentieth century capitalism held out the hope of raising the standards of the middle and lower classes and it therefore, found support in these sections. The inter-war period, however, shook people's confidence in the vitality of this system and its ability to deliver more and more goods at less and less price. Except in the New World, capitalism became more on the defensive. The last war has accelerated the disintegration and today capitalism is more or less on trial in the old world. Even in Europe, it is fighting a very defensive battle and in Asia it faces a very grave situation. Until and unless the businessman is not able to revive confidence in the ability of the system to promote general economic progress, the future survival will be very painful and short-lived. Businessmen have, therefore, got to accept this challenge in their own enlightened self-interest. They have got to demonstrate in actual practice that business stands

for promoting the welfare of not merely a few handful of individuals but it stands for furthering economic development. It is this dynamic capacity of business leadership that has enabled the United States to build up its economy on such strong foundations and it is this faith in continued development that is enabling America to remain as the bulwark of the capitalist forces.

• The communist upsurge in Burma, Malaya and Indo-China should open the eyes of some of our businessmen to the dangers that confront them in the future. The collapse of China is the biggest disrupting factor and it is bound to have wide and far-reaching repercussions. This does not mean that our business leaders should give way to despondency and resign themselves to these almost cataclysmic changes that are enveloping them. There is no meaning in just "wait and see" and hope for a better morrow. There is still a way out if the business leaders can furnish the lead that is the need of the hour.

### SCIENTIFIC RESEARCH

The question naturally arises as to what will raise the productive efficiency of business units? New methods of scientific research will be absolutely necessary. The General Electric Co. of the United States is the largest producer of electrical goods in the world having sales of nearly 2,000 million dollars a year. It spends almost 5 per cent. of its net sales on projects of scientific advance. It is no doubt a line that requires a higher percentage of research than consumer goods industries. There is a large organisation which carries on endless experiments developing new patents. In this country, very few patents have been developed. In Germany the patents occupied a very enviable position in industrial economy. Our *entrepreneurs* will have to set aside a certain portion of their earnings to develop new processes and perfect the old ones. The expenditure will have to be on a much larger scale in the future and no immediate dividends may be expected therefrom. Our

industries have got to keep themselves abreast of the technological changes occurring in other countries.

### MARKETING RESEARCH

In the matter of market-research the *entrepreneur* must have increasing recourse to modern methods. Large units must have a nucleus of research workers who will continually keep themselves abreast of the changes occurring in the consumers' tastes and preferences. It involves a very good analysis of the buying habits of the consumers over various parts of the country and a close study of the various distributing channels employed in the sale of that particular commodity.

Every large corporation in the United States has either a department of its own or it seeks consultation from marketing specialists. Market surveys of potential consumers are made and in some cases questionnaires are prepared and sent out to a few typical and representative consumers. Their reactions to the Company's products are noted. The market survey also covers such points as to what the other competitors are doing in matters of price policy, quality, consumer satisfaction and trade channels. The competitive position of the company is analysed in the face of these factors and a suitable marketing programme and policy is laid down with maximum consumer's satisfaction as its basic goal. The market research organization also gives salesmen training both at the plants and in the sales office to its members, fixes their quotas and targets. These salesmen are then kept fully informed of the various changes and their work is judged in relation to the general standards for that area. The marketing research department of some of the larger units also have a section that deals with the current economic situation both in respect of domestic market and foreign outlets. They deal with the economic factors and sometimes make out forecasts of what they consider is likely to be the general level of business activity in a particular period. This has been called the practice of

business forecasting and in a period of rising or falling business volume the marketing policies are adjusted so as to obtain the maximum sales volume. It is this dynamic approach that is the secret of the success of American industry. India has a large domestic market though it is vastly poorer and its consuming habits are very much different. The marketing research organisation will be fully conscious of these factors and will develop a marketing and sales programme in the light of conditions prevailing. The marketing organisation also deals with problems like advertising, etc., and aims to develop more and more products that are likely to have a future market. The potentialities are very well tapped by such an organisation.

### *PRODUCTION PLANNING*

Very little thought has been devoted in this country to the subject of production planning without which efficiency in production and lowering of unit costs will be subject to sheer chance. We have already seen the need for maximum production. The production planning department will make a chart of the existing available plant capacity and resources and will fix targets for each department in conjunction with the foremen in charge of those operations. It is the duty of the production planning department to see that these targets are adhered to and ultimately attained. The planning department will study through a careful analysis of the various processes as to what improvements can be effected within the existing limitations to increase productive efficiency. There is great scope in this country for the improvement of Time and Motion studies and a lot of labour time can be saved by eliminating some of the crude practices and by improving the conditions. If the workers' problems and needs are understood from an efficiency standpoint some of the wastes can definitely be cut down. Through proper arrangement the productive efficiency of the work can be increased and this will increase labour wages in the long run. If the management can create a real interest

in the worker and show him the means by which his efficiency and earnings can be increased under present conditions there is good reason to believe that the response from labour will not be so disappointing. After all, labour is interested in its own welfare. Even with regard to matters like plant lay-out the planning department will have much to contribute by making the optimum use of the space facilities and arranging the lay-out in the most scientific and economical manner. These problems are very important if business has got to be organised and run on the lines that can make its future more safe and secure. It is a sort of challenge to the business management and the necessary resources will have to be found to put things in order before it gets too late.

### HUMANISING BUSINESS RELATIONSHIPS

The most revolutionary change is taking place in the field of public and personnel relations and the Indian business world will also have to revolutionise its old psychology if it means to stay in business. One of the problems of civilised peoples has been the adaptation of business methods to their needs and the assimilation of business groups in their midst.

The interest in public relations and building up of popular goodwill has long passed the stage of a fad. It has entered the consciousness of the *entrepreneurs* in the New World and it is on this basis that business policies are being reorganised. One of old mottoes has been "business is business" and it has conveyed the meaning that a businessman is only in business for the sake of making a profit and he is content to serve his fellow-men in the pursuit of profit. Throughout the record of human history businessmen have been selfish and they have felt that there was no other means of survival. They have also been imbued with the psychology that since the service provided to the public is vital to society, there is full justification for their outlook. Selfishness may of course be a human weakness for at some

stage or another every individual displays a certain measure of it. But selfishness may be conciliatory, broad-gauged and keyed to the long-term point of view. It has got to be enlightened under present-day conditions. Today, the businessman has got to realise that profits in the long run can only be earned through serving the public and ultimately the consumer. The pursuit of profits has got to take into consideration this vital factor. Profits in the future cannot be divorced from this dictum and the building up of sound public relationships is the first criterion if the challenge is to be met squarely. Public opinion is becoming much more organised and the narrow concept of profits alone has got to be thrown overboard. Businessmen have always demanded a great deal of privacy and secrecy and more so in this country. There is hardly any organisation here that collects essential information about the financial and business standing of various firms such as Dun & Bradstreet in United States. If you want any references you have just to look up in this encyclopædia and you will get quite pertinent and latest information. The desire for a certain amount of privacy is understandable but Government controls, apprenticeships, text-books on technological processes are terminating that old state of utter ignorance. The professional associations are also tending to reduce that element. In this world of broadening horizons the business leader should give up his secrecy, where no great loss is involved. Good public relations cannot be built up by keeping the consumer in the dark. If there is nothing sinister in business to divulge why not put an end to the continued state of suspicion? Let it be remembered that what men understand, they do not fear. What they know, they are more likely to trust and what they do not fear and do trust they may be willing to espouse and fight for.

This does not mean that every practice of business organisation has got to be publicised but there has got to be an increasing measure of enlightenment in the public mind. Today, the public has got to be taken into confidence

and assured that the business interests are not opposed to the common interests. It may sound academic and idealistic to some businessmen. One has only to look to the histories of public relations of various American corporations to see the practicability and truth of this statement and what an amount of public support such policies have won. The United States Steel Corporation, began to disclose to the public a large measure of information, hitherto kept secret by practically all concerns and insiders were not allowed to get advance information as to financial conditions. In this connection it is worthwhile to recall the words of Mr. Gary, President of the largest Steel Unit in the world.

"The reason for these adverse conditions has been partly the fault of the businessmen. We had become more or less careless in management, indifferent to the rights and interests of others, regardless of our responsibilities towards those for whom we had become trustees, as directors, officials or otherwise, and unmindful of the general public welfare. We did not sufficiently realise our duty towards one another, towards rivals in business and to employees whose welfare we were in duty bound to protect and promote."

Businessmen are increasingly become conscious that many a citizen has an idea that business is tricky, if not crooked. There is at present a searching of hearts and scratching of heads to find out ways and means to improve public relations on a sound basis. In the United States, there is a big dynamic change that is permeating the business arena. Many of the old-time legal counsellors who used to steer business through the shoals of laws and investigations have almost come to the end of their journey and are being rapidly eclipsed. Their legalistic minds live in precedents and bask in subterfuges. The public leaders are showing increasing awareness and the public is also not wanting in trying to honestly wrestle with the business problems if real information is forthcoming. The old era is dead and gone and it cannot just be revived even if we wanted. In

present times the business leaders have got to sell the idea of their continued utility to the public. They have got to convince them that businessmen are dynamic, creative factors in social and national life and that they are the servants of society. They have got to increasingly prove that in spite of the many mistakes that are made in everyday business, the average standard is high and progressive. The common man has got to be assured that his prosperity is linked with progressive and prosperous business if his support is to be mustered in the future.

Businessmen have also got to appreciate that the days of economic liberalism are gone and perhaps never to return and they have got to adjust themselves. "The psychology of many a businessman in this country shows a sense of despondency and there is a great deal of skepticism about labour's role and attitude. This feeling has grown as a result of the failure to perceive the human element in labour situations. The mere appointment of labour officers and the grant of amenities is not all that is required presently. That much is required by the force of law. To quote the words of Prof. Gras, world's leading authority on the subject of Business History, "The businessman, compelled to live dangerously in a critical or hostile world must be willing to learn from the outside and must grow with society; he cannot operate in the medium of past public relations."

There has been a failure to recognise the social implications and responsibilities of business management as the changes have been forced upon rather suddenly. In the days of mercantile, industrial and even financial capitalism the responsibilities devolving upon business heads were not so significant. The emergence of Russia after World War I was a great factor that turned the tide. The success of Russia particularly in the depression years of the 'thirties was phenomenal. The capitalist order at that time was stagnating. Enlightened employers could see the writing on the wall that the days of old employer-employee relationships were just coming to an end. The

history of personnel relations of the leaders of the West has much to offer to the businessman of the East who seems to have changed but little in his outlook. This failure has eclipsed the central fact that business in the present century is more of a social obligation than a craft for successful manipulation of money and accounts. The profit motive may have its place but in the future the businessman has got to appreciate that it cannot be the sole determinant and the very ultimate end of his business activities. In other words, *the clear realisation that business today is more of a social service than mere money making has to dawn on the minds of those who have the wherewithal to make vital business and economic decisions.*

Business is being already subjected to a great degree of political control. The stage has already been reached when business has got to socialise from within, otherwise it will be socialised by pressure from without. The businessman has yet a big role to play in the economic development of this country if he shows a proper realisation of his social duties.

## CHAPTER XVI

### *CONTROLS*

CONTROLS have become an absolute necessity in the last few years and as long as a normal healthy equilibrium is attained they will continue. It is true that the administration of some of them have revealed glaring defects but this does not mean that they can be easily given up. The machinery of controls has got to be improved and perfected. The only long-term answer to their complete removal is increased production so that there will be enough goods to go around. Unfortunately, the world and particularly, India are still far from realising that cherished hope.

### *CONTROL ON FOOD*

The strictest possible control should be exercised in the matter of food supplies as it is the single largest item in the average family budget of today. The unfortunate experience of the decontrol era is too well-known to need recapitulation. The rationing of food which has been reinstituted should be extended even to small towns and the procurement has to be tightened up through compulsory levies on the landholders and peasants.

### *IMPORT CONTROLS*

Controls are at present in existence over a wide field of imports, but unfortunately there is no evidence of any realistic policy. In 1946 and early part of 1947 our economy was flooded with goods from the United States many of which far exceeded our requirements. There was a plethora of fountain-pens; plastic combs, consumer and toilet articles and one of the biggest rackets existed in parachutes. Indian buyers had purchased almost the entire surplus of parachutes

from the disposals in United Kingdom and the United States of America. This was the most callous form of wasting such scarce foreign exchange. The lessons were learnt too late. Then came another era of very limited amounts of imports and even though the supply position had vastly improved in the sterling countries the import policy till the first half of last year remained extremely strict—so much so that only £3 million was utilised out of 83 million sterling released under the sterling balances agreement with United Kingdom. During this period the consumer was going without goods. Then came the Open General License which opened the doors to many a newcomer who hardly knew much about foreign trade, and many unwanted types of goods have already flooded the markets and many crores of rupees are lying blocked up. There is at present a huge waste of valuable foreign exchange. This may be due to the complacent fact that our sterling reserves are very plentiful and we can afford to fritter away the sterling balances in any manner that we please.

There is another aspect that is often ignored in this context. The Indo-Pakistan trade agreement provides that sums exceeding Rs. 15 crores will be payable in sterling. India's dependence on large supplies of raw jute, whose prices are at an all-time high is clearly perceptible and we also require a good portion of their cotton exports and food surplus. Our sugar exports stand at nil and there is a marked decline in export of coal. Cotton piecegoods are about the largest item of our current exports to Pakistan. It has been estimated that our deficit of trade with Pakistan may be at least of the order of Rs. 60 crores. This implies that we shall have to pay them around £35 to £40 million and this will be quite a big drain on our foreign exchange reserves. Besides we require huge amounts of sterling in order to finance our bulk wheat purchases from Australia as our favourable balance of trade with that country is now becoming a thing of the dead past. These factors alone

should dispel the vague ideology that everything is fine in matter of sterling and soft currencies.

This will necessitate that our future import policy has got to be immediately revised and the system of Open General License should be disbanded. The figures of our foreign trade just released in the Constituent Assembly show that we are running an adverse balance of nearly 65 crores a year and if we add to this our deficit with Pakistan the figure will be not less than 125 crores. This drain will wipe off our Sterling Balances and there will be no hope of attaining economic equilibrium. This position is in sharp contrast to the rosy ideas that were harboured in the past. Liberal imports of urgently needed goods may be permitted outside the dollar area but wastes of foreign exchange should be stopped. Unless some of the existing surplus stocks are not cleared further imports of such commodities should not be allowed. Inflation cannot be fought merely on the basis of importing all types of junk and un-needed items. It might cause a temporary slump in the prices of such items but the prices of items in real demand like food, housing and cotton textiles are not going to come down like this. The strictest control on our foreign exchange will have to be exercised if the authorities really wish to make the optimum utilisation of our limited foreign exchange resources.

The realisation has got to come that the nation has to make tremendous economic sacrifices and practise greater austerity for some more years to come. Our internal and external financial resources are by no means so plentiful that we can afford frivolous experimentation and the strictest amount of economy is the need of the hour.

### *EXPORT CONTROLS*

Coming to export controls we find that the gravity of the situation has hardly come home to those who are content with a preaching of pious wishes. Our export target has been fixed at 20 per cent. higher than last year

but are our exports being actually pushed on an organised basis? The last few months figures convey exactly the contrary picture. It is universally recognised that the present high prices of jute goods are driving the American consumers ceaselessly to substitutes. Is anything being done to bring down the price of gunnies? It might be argued that the price factor is something that has to be decided at the market-place—by the forces of demand and supply and Government can do very little in the matter. That may be all right to talk about in an age of absolute free trade and if that be the case why should Government be anxious to earn more foreign exchange? As a matter of fact the Government steps in to buy each time the gunny market goes down. The B Twills market was on the way down and stood at around Rs. 135. The Government purchases at this time took the market to Rs. 150 and recently the Government again stepped in to buy when the bearish sentiment seemed to be predominating. Such Government purchases only act as a prop to the market and keep the prices at higher levels and the foreign consumer is not tempted to come in. Is it the way to earn greater amounts of foreign exchange? If the Government cannot do anything in the matter of fixing ceiling prices they can at least keep out from supplying such artificial support at lower levels. That would be the only way to bring down the prices at a level which other countries can pay. The desire should be to retain long-term markets and not cast them away for small gains in the short-run. The allocation or quota system was working in such a manner that at one time 15,000 applicants were on the list of prospective gunny shippers and in New York all sorts of people were seen hawking these jute goods quotas in early 1948.

When the buyers were completely disgusted the dollar area was declared a free licensing territory. The evils of the obnoxious quota system may have ended in the case of U. S. A. but they are by no means at an end for our other overseas buyers. Many a time the export quotas are given

so late that months elapse and foreign buyers are just kept in suspense. There is a limit to which their patience can be taxed. There are numerous cases where the quotas given are of such absurdly low quantities that it means a sheer waste of time and resources for all the parties concerned and it earns a bad reputation for our exporters abroad. These moves have not increased our commercial repute in foreign countries nor do they reflect favourably on our export policies—past and present. The continuance of export quotas is justifiable as long as the supply position of a particular commodity remains tight. The current jute goods position clearly shows that there is no such tightness as figures of production show an all-round increase. The need to stop all supplies to South Africa is absolutely clear. South Africa is, however, only interested in jute bags or sacking and she has no use for hessian cloth.

The export control on hessian to soft and sterling currencies should be removed and in case of sacking the quota allotments will have to be made much more efficient and speedier. Bulk purchases on Government account should as far as possible be made in a manner that our prices are not kept at artificially high levels. Every country is presently pushing up its exports with Government support and backing and is anxious to bring down its export prices to more reasonable levels. Our export duties are also beginning to tell heavily on our exports—particularly in groundnuts and linseed and even somewhat in jute goods. These duties will have to be reduced if prices cannot be brought down otherwise. This will of course mean a certain amount of loss in revenue but it may be worthwhile to absorb it than kill our foreign trade.

Considering the importance of our jute industry it is incumbent upon the Government to increase research and develop wider uses for our products. A good deal of progress has been made in Dundee in making curtains out of jute and in texture and quality they are very soft and attractive. Such uses will help to stabilise our premier export commodity.

The ground for making Calcutta as the world centre for tea should be further explored. The Government must also take immediate and effective measures to improve the grading and standardisation of our export items such as mica and manganese. Foreign buyers often make stipulations which are not easy to comply in the absence of proper facilities having Government recognition. In matter of exports of foodstuffs like blackpepper the Government should enforce strict food laws so that the qualities exported may be able to stand up to the requirements. These measures will facilitate sales from this country.

### **CONTROL OVER GOVERNMENT EXPENDITURE**

During the war the Government expenditure increased by leaps and bounds and even in the last three years it has continued to mount. The war-time expansion still continues in the face of falling revenues. The gap between public revenues and Government expenditure has shown no signs of narrowing down. There has been a very big increase in the staff in the various departments both at the centre and in the Provinces. Though an economy committee was appointed late last year there has been no concerted move to cut down the huge expense bill. There has been no retrenchment committee appointed, although after World War I the Inchcape Committee was appointed to go into the matter of reducing Government expenditure and its recommendations resulted in an annual reduction of 20 crores of rupees. The need for economy is much greater at this time. A much more thorough going enquiry committee is absolutely essential and it should aim at increasing efficiency and cutting down the total cost.

Many a development scheme has been put through both at the Centre and in the Provinces and the amount of expenditure envisaged bears hardly any relation to the results anticipated. Such schemes have got to be thoroughly analysed and some of them may be shelved for the time being. A committee should be appointed to consider such

schemes in their order of priority so that maximum results may be obtained in the short-term. It is quite clear that the authorities made too sweeping promises to certain sections who now look forward to the implementation of such projects immediately. The Government will have to face the situation boldly and tell these elements of its present inability to launch expensive measures. The first aim of the Government should be to cut down the deficit expenditure as far as possible without involving an administrative breakdown. The authorities must realise that progress in the social spheres has got to be slow under present conditions. It is only an increasing amount of revenue that can sustain present levels of expenditure and increasing revenue will not be easy and practicable without a commensurate increase in physical production. Ultimately, the situation boils down to the oft-repeated formula of cutting the coat according to the cloth.

### *ABANDON CHEAP MONEY POLICY*

The Government should abandon the cheap money policy which is a useful instrument during a period of war. Under present conditions the cheap money policy does not help production and is depleting the liquid resources of industrial and commercial units. The continuance of a cheap money policy acts as an inflationary injection into the inflated economy. At the present moment such an injection is not required but it should be recognised that inflation has to be reduced in an orderly manner if widespread distress and dislocation is sought to be avoided.

In its borrowing programme the Government has so far shown little appreciation of the existing conditions. They have failed to realise that in the beginning every Government has to create a sense of stability and confidence. This does not reflect on the popular nature of the Government. Every National Government has had to face this problem in the initial stages and when the Governments have demonstrated the success of their policies the lurking

doubts disappear. The situation is not peculiar to this country. In such circumstances the Government has got to show that its policies are bold, comprehensive and well-co-ordinated. Moreover, in the early stages the Government may also have to raise loans at a slightly higher rate of interest if the response at the very low rates has been poor. After all, some premium has got to be paid in the preliminary stages and there can be no escape from it. Some of the people in charge of formulating these policies have missed this approach and they have all along felt that capital has gone on strike and has ceased to co-operate. That is farther from the truth.

Capital is always forthcoming when it is assured of reasonable returns. At present the market rate of interest is at least two to three times what the Government has so far been willing to pay and naturally the people have looked more towards such investments. There is of course, a great deal of difference in the borrowing status of the two and the amount of security that a Government loan reflects, but if the difference is too glaring the result is easy to perceive. After a Government has been able to stabilise the politico-economic situation and to demonstrate its efficiency of operations the borrowing becomes much easier and money can be had at lower rates of interest. There is no sense in feeling that there has been an undue sense of scepticism and passive hostility. It only reveals that the expectations of the policy framers were pitched far too high and were out of tune with the realities of the situation. The sooner the adjustment in outlook can be made and the policies reorientated the more definite will be the improvement. Institutional investors will be better attracted if the treasury bills could offer a higher rate of interest and their period could be increased to six or nine months preferably. At present the response to three months Treasury Bills is so disappointing that the Reserve Bank has been forced to underwrite them on many an occasion in the recent past.

A number of Provincial Governments have launched on ambitious schemes some of which are laudable in their objectives but are clearly out of the question from the standpoint of governmental finance. The Centre should make it plain that it is by no means in a position to finance these Provincial requirements and they must fall back upon their own slender reserves.

### PROHIBITION POLICY

Yet another field in which the Provincial Governments have shown an over-zealous attitude is the policy of prohibition. It is causing a net loss of Rs. 17 crores annually to Madras Presidency alone and even the loss to Bombay, Calcutta and other parts is very substantial. We have examined the present prohibition policy and the lessons of the failure in United States. The State should not meddle in these matters when it has too many other burdens to carry and worry about. It should wait till it is in a better position to push through such social legislation. In the meanwhile, it must put faith in the moral sense of the community itself to check social evils. There is further, a lot of money spent in the enforcement of such schemes and the ordinary taxpayer is by no means in a position to bear such additional burdens when he can barely make his both ends meet. Social life has already fallen to low levels owing to difficulties imposed by shortages, Government controls on entertainment and normal facilities for travel. It will become all the more dry and intolerable in the face of such premature legislation. No authority, howsoever, strongly constituted can transform the social and economic structure of nearly one-fifth of the human race in so short a span of time. Moreover, when it comes to dealing with the problems of an age-old civilisation the cake of custom is hard to break. In the absence of a real revolutionary spirit in the rank and file, too violent a break very often misses the mark and aggravates the situation. The present energies should be

concentrated in consolidating the position and making it very strong and stable to lay secure foundations for the future. The adherence to mere form is worse than useless if the real spirit is lacking and in trying to locate the woods let there be no mistake of being lost in the trees.

## CHAPTER XVII

### *REMEDIAL MEASURES IN OTHER SPHERES* *REALISTIC APPROACH TO FOREIGN POLICY*

THE Government should take a realistic stand in matters of foreign policy and the role of foreign capital in this country. It is no use saying that we extend our hand of friendship to every nation in the world. It is a noble ideology but it cannot be practised in the life of a nation. The world has become so interdependent that no nation can cut itself adrift from world forces and hope to remain absolutely neutral in any future conflagration. The history of nations clearly shows that a friend of all is generally the friendless friend of none. The other nations will continue to court and bully us and force us into the game even if we wanted to stay away from rival power *blocs*.

Our foreign policy has got to be in keeping with our plans for rapid economic development. The Western countries are about the only source of obtaining capital goods and technical know-how without which industrialisation will be an extremely difficult task. If we wish to make use of foreign capital they are about the only source accessible. Russia is in no position to supply us machinery or technicians nor can she spare us any capital. Most of our commercial relations and trade contacts are with countries of the Commonwealth and United States and other Western countries. We have so far very little trade with the U. S. S. R. Moreover, our political goal is the establishment of a social democracy which has more in common with the Anglo-American political philosophy. Our geographical position is very strategic and economically powerful. India will constitute a great bastion of freedom-loving peoples in the heart of Asia. This does not imply that we

should become a sort of appendage to the West and relinquish our political sovereignty in any shape or form. Economic and political alliance in today's context is inevitable but it does not imply either. In the two great wars many powers were associated with the allied nations but they were by no means under the political domination and tutelage of other powers. The concept of absolute sovereignty as understood in the old days is now a thing of the past. Economic forces are no respecters of national boundaries or frontiers. India does not possess the armed might of a modern airforce, navy or mechanised landforce that would be needed to keep the balance of power in the world or even to preserve her neutrality. We are by no means self-sufficient in our present economic resources and output. We cannot very well follow a policy of a closed economy. Even in matters of food and raw materials we cannot exist without foreign supplies.

It may be argued that Ireland was able to pursue a neutral policy in the midst of a European war and that we would be able to do likewise. To draw this sort of comparison is to betray lack of understanding of the true factors involved. By the very size of her economic and military potential, India cannot compare herself to Eire. Moreover, she has ambitious industrialisation schemes without which economic poverty will be impossible to eradicate. The belief in the invulnerability of our mountainous frontiers should have been dispelled by the development of aviation in the last 30 years, and should not lull us into any false sense of security. The modern war equipment could not stop the foreign powers from overrunning Italy which has a geographical position somewhat similar to ours. She has a large coastline and the Alps and a climate that has much in common with us. Her age-old civilisation, the grandeur of her old empire, the largely agrarian nature of her economy, the pressure of population on her land, the religious temperament of her people has much in common with our own way of life. But even a small country like Italy cannot

keep herself neutral in present times and we have only to recall what stormy events raged during the period of her last general elections. From the standpoint of defensive strategy any future alliance with Russia is not going to materially help our situation. Russia's supply lines and bases of communication have already become so long and are so far stretched over that it will not be easy for her to maintain effective control. The absorption of the 10 Eastern European countries and parts of China has already made her life lines very vulnerable. Her political ideology has more in common with a sort of subordinate role and vassalage and is hardly in keeping with our national character and aspirations.

### *INDO-PAKISTAN RELATIONSHIP*

We have seen the complementary character of Indo-Pakistan economies and the optimum economic development of the two regions is not possible in the absence of socio-political harmony between the two neighbours. Geography, and the past history of centuries has woven them into a texture that would be very hard to obliterate. It would, therefore, be in the interests of both dominions to work very closely and if possible even a Customs Union be formed on the same basis as the Benelux countries in Western Europe. The interdependence is so close that you cannot separate the limbs without creating a permanent disequilibrium in the body politic of both. Economic forces are much more powerful in the long run and their operation cannot be arrested over a long period of time. Happily, the political rancour that raised its ugly head in the last two years is showing signs of quick abatement. The future of Bengal's economy is linked up with the future of jute in world markets and the disastrous consequences that will devolve upon both Bengals if this commodity was to become a bone of contention can be better imagined than expressed. Its predominance in the economy of East Bengal is even more clear and the policies of either dominion to hold the other to ransom and develop policies of long-term and cut-throat competition is

not likely to help their nationals. It will only make the economies sick and most unbalanced. Pakistan has also got to appreciate that her best customer is India for her products like raw jute, raw cotton and wheat. Some of the futile notions about the economic absurdities of Pakistan should be abandoned and *they* have got to realise that economically she has come to stay. The future welfare of both lies in understanding each other's needs and limitations and evolving a common policy that will make for mutual peace and goodwill. *United, the two countries can play a very important part in stabilising the tottering economies of South-East Asia, but divided, the two dominions will spell disaster for the Asiatic Continent and shall we say—the dumb, exploited one-half of the human race who inhabit these regions of the old world.*

The Government must also absorb the foreign trained technical personnel and try to raise its administrative efficiency and in the future it should only send or encourage batches of students proceeding for technical training if there is genuine scope for the utilisation of their knowledge and abilities on their return. The policies in this matter have got to be properly co-ordinated if the most callous waste of our rich human resources has got to be arrested and finally stamped out from our national life. There must be a spirit of greater co-operative effort than has so far been in evidence and some of our present prejudices and the spirit of vengeance have got to be eliminated to the maximum extent possible.

### RECONSTRUCTION CORPORATION

During the boom years of the war and in the first half of 1946 many new companies were started in this country covering very wide fields of enterprise. Capital was very easy in this period and in a good many instances the shares were offered at a premium to start with. The capital structure of these newfangled enterprises was top-heavy from the very beginning with little regard to the long-term

burdens that it creates. Some of the very well-managed companies may come to stay but there will be quite a few that will get into hot waters as the depression increases in intensity. The artificial boom of the last three years has kept them going in some shape but the real crisis will develop in the lean years ahead. Secondly, the speculative element helped to inflate the price structure even more and the fabulous capitalisation will create no easy problems for industry and commerce. If a country's industries come into the hands of speculative elements a very explosive situation is created. When the speculative elements become weak the structure totters to the ground. The ring-leaders may even escape but the social community will be left holding the bag. It is the long-term repercussions from the social standpoint that have got to be taken into account. In the United States there exists a National Reconstruction Corporation and this body is charged with investigating the financial conditions of weak companies which may seek its assistance in a period of crisis or economic mal-adjustment.

This body is financed by the Federal Government and it seeks to rescue companies from foundering on the rocks by making suitable grants in the shape of loans and advances against collateral. The need for such a Reconstruction Corporation exists in this country in view of the impending crisis and if steps in the right direction are not taken the disaster will spread like wild fire when it comes. There must be an agency to rescue companies from going into insolvency and our laws may have to be modified to permit more liberal reorganisation of business units that have gone into bankruptcy or are on the verge of it. Sometimes the reorganisation is voluntary and the mediation of such an agency can help to resuscitate such weak units. In the past, the existence of an alien administration prevented the formation of such nation-building bodies but now that we are free, we must lay sound foundations and try to reduce and mitigate the economic evils. The reorganisation or bankruptcy proceedings have got to be conducted in a

manner that the unit may be brought to life, if possible through a change of management, reduction in the capitalisation and cutting down of fixed burdens or other suitable measures warranted by the situation. The approach has got to be much broader than a mere winding up if the interests of the public and the shareholders are to be properly safeguarded.

### *INDUSTRIAL FINANCE*

The predominance of joint-stock banking organised on short-term loan principle is quite familiar in our economy. It is a prototype of the British banking policy. The pursuit of such a policy may be appropriate to Britain's economy which is chiefly built on foreign trade but it is clearly unsuitable to our needs. Therefore, the need for an Industrial Finance Corporation is quite clear and its urgency is all the more reinforced by the lack of capital formation, absence of savings and complete paralysis of investment activity. It was reported that the Government was going ahead with this project but the work has got to be done much more speedily and its scope has got to be much more comprehensive. Such an organisation must seek to find the long-term finance needs of our industrial units and will have to be modelled on the Continental and American basis.

### *REINSURANCE GROUP*

In the field of Insurance much progress has been made in last 60 years since the pioneering work of stalwarts like Lala Harkishenlal and there has been a tremendous growth in volume in all sections—life, fire, accident and marine. The share of Indian Companies has also grown very predominant in last 20 years. But so far there is a complete lack of reinsurance facilities in this country. If we are to build our economy on healthy lines insurance must occupy a very important place in it. In view of this consideration and fostering further healthy growth the Government in conjunction with the Insurance Companies must create an

organisation of insurance underwriters on the basis of Lloyds of London. In the beginning, treaties for reinsurance may have to be negotiated abroad but in the long run the object should be to develop such facilities within our own domain.

### *DEVELOP EXCHANGE BANKING*

In the field of Exchange Banking our share is practically negligible as most of our foreign exchange business is monopolised by foreign banks operating in India. We shall have to profit from the lessons of the United States where foreign banks are allowed to perform limited functions and we may even have to subsidise national institutions to bring them to a stage where they can gainfully participate in the foreign commerce of this country. No doubt this will require years of experience over wide areas but steps must be taken to develop this auxiliary link in our banking superstructure.

### *CEILING ON PAPER CURRENCY*

To check the serious inflationary situation there must also be a ceiling on note issue so that increases in currency may be prevented. The deficit financing operations have in the past given a great spurt in this direction. This can be done without disturbing the scope for marginal adjustments.

### *BROADENING THE BASE OF ADMINISTRATION*

The deterioration that has come in the ranks of the Congress will have to be checked if it is to be prevented from developing into a rot. The great sacrifices of our national leaders during the past 60 years of our national struggle have won for them an abiding place in the hearts of all our countrymen. Lately, however, there has been too much emphasis on "partyism" and certain sections have displayed a desire for cashing in on their past sacrifices and if this tendency be allowed to develop and take root in our

national life, the result will be disastrous. There will have to be much less emphasis on party affiliation in the future and the base of the Congress has to be much more widened and broadbased.

During the years of political fight most of the energies had to be concentrated in organising the national movement and there was no effective need for developing an economic programme characteristic of Western political parties. In the future, however, the need for developing a clear-cut economic programme is plain clear. There must also be an organised opposition. The opposition is not to be for the sake of mere opposition but it has got to stem from a constructive approach. That in the final analysis, is the real test of an enduring democratic base. It has been rightly said by Lord Acton that "eternal vigilance is the price of liberty" and a much greater degree of national consciousness and social responsibility will have to be infused among all sections and particularly the mass mind.

Sardar Patel recently observed that it has been the tradition of Asia to lose freedom after having attained it. India has got to prove to the world that it can not only safeguard her freedom against any possible onslaught but develop it into a weapon that will remain as the bulwark of democracy in the Asian Continent.

## CHAPTER XVIII

### *THE DANGER SIGNAL*

THE symptoms of the current economic and business conditions that have been diagnosed earlier clearly reveal that the malady has reached an acute stage. It is no longer a disease that can be taken lightly. Politically, we are on the threshold of a new era that promises a bright future but economically we are sinking into an abyss. Can this situation last? The two are so inter-related that separation is impossible. The year 1948 witnessed a definite improvement in our political solidarity. It is earnestly hoped that the year 1949 will at least see the beginning of a real, bold and determined effort on the part of the nation to fight the production crisis.

The middle classes have always formed the backbone of a progressive democracy. Today, they are almost on the verge of annihilation and economic bankruptcy. There is nothing concrete on the horizon to show them a ray of light or the chance of a better morrow. The evil effects of the disillusionment of the middle classes in Germany may be worthwhile to recall. During the years following Versailles and more especially, in the period of the economic collapse of the 'Thirties the middle classes were ground down under the economic crisis and the result was that political freedom went into oblivion and was replaced by Hitlerite dictatorship. That meant the end of even the religious and social freedom and society came to be organised on the basis of serfdom. Italy, had a similar experience after World War I and it was the acuteness and depth of the crisis that brought Mussolini into power and ultimately chaos. In China, the economic struggle was becoming harder and harder in recent years but the authorities failed to halt the crisis.

Chiang Kai-shek held at one time the leadership of Asia in the palm of his hands. It was this failure to bring about the economic adjustment and equilibrium that saw his downfall and his eclipse from the political arena of his country. Totalitarianism thrives most in situations that show signs of economic discontent and helplessness. Communism also thrives in such a soil by exploiting the discontent of the people. In societies where the economic health is not impaired, communism has a very hard ground to grow in and generally finds no great response. The danger of communism or other totalitarian tendencies may not exist today in a manner to be evidenced immediately but if the present production crisis develops for any length of time the danger signal may appear on the horizon. The history of Eastern Europe is a potent illustration of the explosive situation and if the Communists have been able to make some headway in Italy and France it was primarily because they were able to play upon the current economic situation. A titanic struggle is now raging between the two rival camps and its progress will continue to have far-reaching repercussions.

The clock has struck eleven and the Danger Signal is for all to see. We can of course ignore the writing on the wall but only at our mortal peril.

## POST-SCRIPT

THE Industries Minister Hon'ble Dr. Shyama Prasad Mookerjee made a statement in the Constituent Assembly that the country had turned the corner in the field of production. He is reported to have said that industrial production is expected to be about 15 per cent. higher than in 1947. No figures were, however, given. The year 1947 was marked by exceptional circumstances arising out of the Partition, and the comparatively more settled conditions in 1948-49 will undoubtedly change the situation somewhat. But the present volume of production is still well below the installed capacity of most of our basic industries. The output of iron and steel has been declining and the other day the Ahmedabad Millowners Association had to close down the mills for want of adequate coal supplies. In the agricultural field there is no sign of any improvement whatsoever. The cotton textile industry is facing a crisis and production will have to be definitely curtailed in the months ahead owing to paucity of raw material supplies and the inability of the mills to clear the huge accumulated stocks of cloth. The jute mills are facing the same situation. In the face of these facts can we reasonably say that the corner has been turned? The fact is that the crisis is developing steadily and the markets have shown no signs of shaking off the stagnation that has characterised them in the last year.

Further evidence of the deepening crisis is furnished by the figures of our foreign trade in 1948 released by Hon'ble Mr. K. C. Neogy, Commerce Minister. India's adverse balance of trade during the 8 months April to December, 1948 amounted to Rs. 37 crores or is currently running at Rs. 50 crores a year. This does not take into account our adverse balance of trade with Pakistan. It is commonly

acknowledged that our deficit with Pakistan is not likely to be of less than Rs. 75 crores a year. Our over-all trade deficit is, therefore, of the order of Rs. 125 crores.

In the face of these facts our exports have been steadily declining ever since the beginning of the year. The United States has been buying very little hessian cloth and even other sterling countries are finding it difficult to pay the high prices asked for export commodities in this country. A bull syndicate has been formed to keep up the price of gunnies in the Calcutta market.

The Government abolished the export duties on oilseeds and oils but the effect has been more than neutralised by the 15 per cent. rise that has taken place in this field in the last two weeks. It shows that speculation is rife in commodity markets. It is extremely difficult for a legitimate shipper to operate under such conditions, and if our entire trade, industry and foreign commerce are going to be left to the tender mercies of unscrupulous speculators our economy will surely and steadily sink into an abyss. What is the Government doing to put an end to this unhealthy speculation? A bull syndicate has also been formed in the stock market, though its influence has very often petered out. If the Government really wants to fight the bogey of inflation it will have to take stern measures to root out these evils through necessary legislation and the exercise of its executive powers.

It is very gratifying to hear that food imports will not be tolerated after two years. The question is that in the absence of adequate agricultural production there will be nothing short of a famine. In the days gone by public opinion was not so well-organised as to challenge the authorities. Today, famine conditions will breed utter discontent and will sow the seeds of communism. The Communists are already consolidating their positions in China and other parts of South-East Asia. The existence of famine conditions will provide a fertile soil for them to propagate their ideologies. How much more police and

military will be necessary to put down the likely disorders? Its cost will be colossal, in terms of money and human resources, and in the ultimate analysis repression cannot bring the millenium nor the fruits of Freedom. The Government must realise that its primary responsibility is to feed the people and provide adequate shelter and at least the bare minimum of clothing. No Government can shirk its primary responsibility if it wants to give the right lead to the nation.

*Ultimately, it boils down to the fact that increased production is the only answer to our present malaise.*

There seems to be a growing consciousness in Government quarters over the labour situation. The strict measures announced to deal with the Railway and Postal Strikes have had a heartening effect. It clearly illustrates that a firm attitude is the need of the hour. One only hopes that the policy will be pursued with inflexible vigour.

The speech of the Finance Minister Hon'ble Dr. John Matthai delivered at the Associated Chambers meeting in December last had held out high hopes of a substantial tax relief. The recent budget proposals are no doubt an evidence of the growing consciousness of economic realities, but the relief granted is too meagre to turn the scales and restore psychological confidence. The abolition of the Capital Gains Tax is not much of a surprise. Very few concerns are changing hands at present and the administrative difficulties in enforcing it were too well-known.

The slight reduction in the rates of Super Tax is a welcome relief. The fact, however, is that the over-all burden is still very high. There is no evidence to show that any economies have been effected in either the military expenditure or the civil list.

Happily the revenues in the past year have been flowing smoothly—thanks to the Open General Licence. This year, however, the picture may not be so rosy. The import field is already over-stocked in many fields and many an importer has burnt his fingers. The trend of profits has

also been steadily declining and if the revenues fall short of expectations there will be no great surprise. In the absence of rigid economies is it safe to say that we are on the verge of entering an era of surplus budgeting? There will be general agreement that the era of deficit financing should be put an end to. In the context of today's financial crisis it is very difficult to raise loans and the need for balancing budgets is very well appreciated.

The second speech of the Finance Minister had a cheering effect on the Stock Market and it made a feeble attempt to rally. But the activity was short-lived and the Market stagnated back to its old level. This clearly reveals that mere speeches cannot unlock the magic door. It is the day-to-day administrative approach and a bold and clear-cut, long-term economic and industrial policy that alone can galvanise public opinion.

The shifting of emphasis to indirect avenues of taxation is a welcome sign, but when used indiscriminately it does more harm than good. The excise duty on textiles and sugar is particularly obnoxious as these items are of mass consumption. The average non-agricultural consumer is already saddled with a large number of direct and indirect levies both by the Provincial and Central Governments and his share of effective buying power is steadily diminishing.

The Provincial Governments hardly seem to realise that they have over-stepped the bounds in burdening the average consumer with far too many levies. The loss of revenue through prohibition, abolition of salt duty and export of opium is expected to be of the order of Rs. 150 crores annually. Apart from the serious repercussions on social life, schemes like prohibition will increase the burden materially. Furthermore, whatever little social life, cocktail parties and social dancing is seen in the leading hotels and clubs will die out. The restrictions on entertainment are already of such a nature that large dinner parties are now a thing of the dead past. To attract large "get-togethers" will be rendered more difficult in the years ahead.

Regulation of the private life of individuals is not going to win much favour. It may have a sentimental value but even economically it is most inopportune to rush it through right now. If the abolition of salt duty is accompanied by a heavy increase in other duties is the average consumer any better off? It is the over-all relief that matters to him.

The continually diminishing buying power of the consumer through inordinately high prices of food and taxes is leading to a substantial shrinkage in the market. The long-term welfare of industry depends upon a large consuming market. If the general level of consumption goes on increasing the base of industry widens. Today the base is becoming narrower and narrower. It was this widening consuming base that enabled Henry Ford to achieve the production miracle that was witnessed in the automobile field. Our planners must, therefore, not blind themselves to this factor.

They must also be willing to tax the agricultural sections in the same measure, otherwise collapse will be inevitable. The need today is not to cut down the sources of revenue in pursuit of sentimental "philosophies" but to pursue a policy based on economic realities and wedded to administrative efficiency.

The Industries Minister remarked that textile control had been a success. The consumer even today is not able to procure all the supplies of cotton textiles that he needs nor are the manufacturers able to dispose of their production. From the standpoint of the average man the country is still faced with a virtual cloth famine and control has made hardly any difference to the situation. Millowners feel that the days of prosperity are at an end.

There is a growing realisation of the community interests between the two dominions which is a happy augury. Evidence of this is to be had in the latest statements of Hon'ble Mr. K. C. Neogy and the budget speech of Mr. Ghulam Mohammed, Finance Minister of Pakistan. It, however, remains to be seen how far these pious sentiments are

implimented into actual practice. The Government has done a fine job in maintaining law and order in the country in the past year. There is, however, no evidence to show that the Provincial Governments are fully alive to the delicate nature of the present situation. There is as yet no uniform food procurement policy and Provincial Governments have been trying to encroach on territory which was hitherto the exclusive domain of the Centre—evidence of this is had from the imposition of sales tax on textile exports by the Bombay Government. The present policies are tending to make Bombay a deficit province. The merger of many Princely States is bound to increase the liability of the Exchequer in the years ahead. The fact that the Bombay Government has had to increase the fees paid by women medical students and levy taxes on slates used by school-going children shows the straits to which the provincial economy is being taxed.

The food problem cannot be solved effectively without full co-ordination between Centre and the Provinces, and without greater food production and better procurement and distribution, the cost of living will not come down in any appreciable measure. The Central Government must see to it that the national interests are not subordinated in any manner.

So many development schemes are in the air that one wonders if they will ever get beyond the blue-print stage. There is apparently no machinery to examine these projects and relate them to our actual financial and administrative limitations. If these schemes are designed to impress the layman I am afraid that the results will be very disappointing in the absence of a real drive to implement them into actual practice.

